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MARCH 1979

# Nation's Business

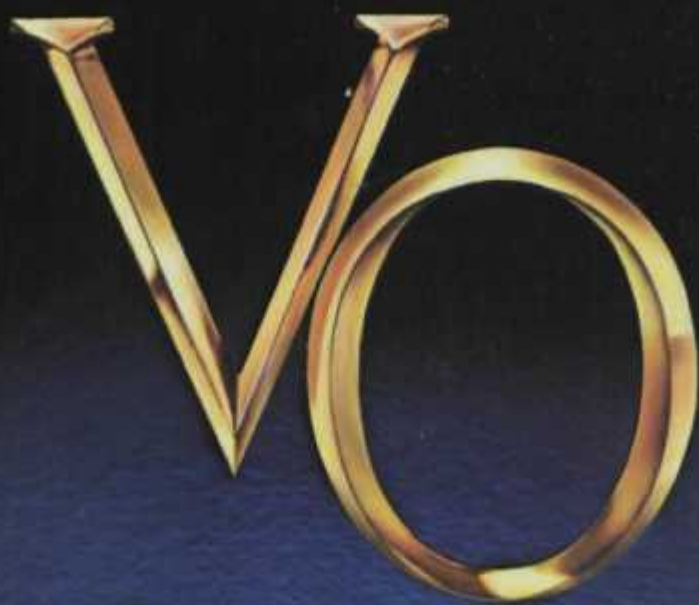
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# Nation's Business

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Nation's Business is the business advocate magazine leading the effort to strengthen the private enterprise system to advance human progress.

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*Peter Accetta*

Peter Accetta  
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# The Nation's Business WASHINGTON LETTER

► **FUTURE OF GAS RATIONING** now rests with Congress--and debate is guaranteed to be hot. Cause: Iranian imbroglio.

Lawmakers have until late spring to act on administration's full rationing proposal and four conservation plans.

Full rationing, if it comes, will be costly. Experts say cost could be as much as \$1 billion.

Inequities are absolutely certain. If full rationing goes into effect, coupons--there are four billion waiting in Colorado--would be distributed on basis of vehicle ownership. You would receive a set amount of coupons for each vehicle owned.

As business does more driving than consumers, firms will have to come up with extra coupons. How? Buy them from consumers.

Government estimates this transfer of money--from business to consumer--will amount to \$11 billion.

► **WILL FULL RATIONING GO INTO EFFECT?**  
Best guess: Not likely.

Experts say another severe foreign situation would have to develop before full rationing kicks in.

What kind?

A major drop in oil production from Saudi Arabia. That's one example.

Administration says a shortfall of at least 12 percent in available oil is necessary before full rationing would be seriously considered.

One Capitol Hill expert says: "I would be very surprised if you would ever see full rationing."

NOTE: Legal authority for full rationing lasts only 90 days. Congress then must act to continue any plan.

► **STANDBY AUTHORITY**--that's the issue Congress is considering right now. To

implement rationing plan: President must advise Congress. If no objection within 15 days, plan goes into effect.

► **ENERGY CONSERVATION PLANS** submitted to Congress late last month have a good chance of being approved, our sources tell us.

Why? Government statisticians say about 900,000 barrels of oil a day could be saved if all four plans implemented.

That's not much against total U. S. daily consumption, but it would pick up any shortfall because of Iran situation.

Also: It might impress on Americans the need to conserve.

► **HERE ARE THOSE FOUR PLANS:**

1. Emergency weekend gas sales restrictions.
2. Emergency parking restrictions.
3. Building heating restrictions.
4. Restrictions on lighting for advertising.

ITEM: Congress is considering standby authority on these plans. To implement: President must go back to lawmakers.

Our sources tell us it is unlikely all four plans would be put into effect--but one or two may be a possibility soon.

► **THAT MEXICAN OIL** you've heard so much about is not a panacea--at least not today. Huge reserves estimated, up to 200 billion barrels.

But Mexico will develop at its own planned pace, which is why U. S. policy-makers are proceeding cautiously.

► **NEW HOUSING STARTS** during the next decade are expected to hit record levels.

National Association of Home Builders says the key is demographics. Example:



The huge numbers of World War II and postwar babies are entering home-buying age brackets.

Also: The trend toward two bread-winners per family. This raises family income--puts more families within reach of buying homes.

"We expect a very rosy housing picture in the 1980s," a spokesman says.

## ► HOUSING COSTS PROHIBITIVE?

That, of course, depends on perspective of buyer--but median family income has never been high enough to afford the median-priced house.

Median price for all houses sold last year: \$55,600. That's up from \$48,800 in 1977--and it's way up from the 1971 median price of \$25,200.

But homes today are bigger, contain more niceties--hence, houses are more costly.

Also: Inflation increases housing costs, climbing from 5.4 percent in 1971 to at least 12 percent in 1978.

Housing this year is expected to cost even more. One reason? New single house starts are projected to drop about 300,000 from the 1.4 million new starts in 1978.

With demand for housing high and supply dropping off, cost will go up.

NOTE: One housing expert tells us a big reason new single starts will decline is cost of money--interest rates are too high.

► STATE OF SMALL BUSINESS improved only slightly in 1978, says Shearon Harris, National Chamber chairman, in a report to the White House.

He says biggest gains made by small business last year were intangible: Signs that elected officials, American public are awakening to the importance of a prosperous small business sector.

Report was prepared by Chamber's Center for Small Business.

ITEM: Revenue Act of 1978 contains tax relief for small business--but act is complicated. National Chamber's Small Business and Tax Policy Centers have prepared a pamphlet--Small Business Wins Tax Relief--to help small business understand new tax law. Cost: \$1, less

for bulk orders. Contact: Small Business Center at National Chamber.

► CUT FEDERAL SPENDING is call sounding from many corners of America today--but where does cutting begin?

Citizen's Choice, a grass-roots lobbying organization affiliated with National Chamber, asked its members to rank the agencies whose budgets most need to be cut.

Here's the top five they listed:

Department of Health, Education, and Welfare; Occupational Safety and Health Administration; Environmental Protection Agency; Consumer Product Safety Commission; and Department of Energy.

► PRIVATE PENSION PLANS need statutory environment that promotes their growth and helps to keep rein on their cost.

This was advice from two National Chamber officials during Senate testimony on a bill to change the nation's pension law, ERISA (Employee Retirement Income Security Act).

The bill is called the ERISA Improvements Act of 1979.

The Chamber officials called for rejection of the proposed legislation, citing as a detriment: a provision to create a new commission to replace ERISA's current jurisdiction, now split between Labor Department and IRS.

"We would prefer the unfinished job of issuing ERISA regulations . . . be completed before making dramatic regulatory shifts," they said.

Also objectionable: The bill calls for minimum standards that would limit flexibility of pensions and employee benefit plans.

► PRESIDENT'S NEW BUDGET fails on many counts to reflect fast-growing popular demand for government restraint.

That's from top National Chamber officials who testified last month before House Budget Committee on administration's fiscal 1980 budget.

They urged Congress to cut spending below Mr. Carter's budget, to start reducing taxes to stimulate business investment, to kill real-wage insurance plan, which they called inflationary.



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# Energy Savings Flow From Water Over the Dam

Hydropower, long neglected as a source of electricity, is being rediscovered



This hydroelectric power plant on the Snake River in the city of Idaho Falls, Idaho, is typical of small projects that can add additional power during peaking periods or help supply a municipal government's power needs.

**T**HERE IS NO SHORTAGE of water in Vermont. That's why the town of Springfield decided to take over the electric power franchise from the Central Vermont Public Service Co., form its own municipal utility, and build a \$57 million, six-dam, hydroelectric, peaking-power system. Just like that.

The town faces a few obstacles. It must complete condemnation proceedings against the corporation, which isn't exactly rolling over and playing dead, and obtain a license from the Federal Energy Regulatory Commis-

sion. But optimistic citizens believe that once the hydro facility begins operating in 1984, electric bills could be cut in half. Equally important, the municipal facility would end Springfield's dependence on oil.

"We are an industrialized city, and in 1973 when the Arab oil embargo threatened our town with economic disaster, we realized that we could no longer rely exclusively on outside power," says state Sen. Chester Scott, who is also a member of Springfield's governing body. "Now, every time the cost

of oil goes up, our plan looks all the better."

Springfield is just one of many American communities which are rediscovering an energy source that has been largely untapped for the past three decades—flowing water.

Throughout the nation, hundreds of small dams with hydroelectric generating facilities are idle. Many of them were either abandoned or fell into disrepair as oil, gas, and coal gradually replaced hydropower. No fewer than 228 small dams were abandoned in New England alone. Springfield has access to six of them.

## Flood control

A recent study by the Army Corps of Engineers identified about 47,000 dams that are 25 feet or higher and generate no power. Only about 1,400 of these had been developed for power generation. The others are for irrigation, flood control, and river navigation. The survey concludes that 54,100 megawatts of electricity could be generated at the undeveloped dam sites. If only ten percent of the 47,000 dams were even partially developed, the United States could save the energy equivalent of 180 million barrels of oil a year.

In the mid-1930s, hydroelectric power comprised about 30 percent of the nation's total generating capacity. This decreased to 20 percent in the early 1960s and to 15 percent in 1978. However, hydroelectric development in the United States has steadily increased, from 7,800 megawatts in 1930, to 31,900 megawatts in 1960, and to 69,000 megawatts in 1978.

Hydropower has several advantages. Unlike fossil fuels, hydropower renews



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Only about 1,400 of the 47,000 dams throughout the nation that are 25 feet or higher could generate electricity. The others are for irrigation, flood control, and navigation. The Newlands project in California-Nevada is for irrigation.

itself because of the recurring cycles of rainfall, runoff, and evaporation. The cost is relatively constant. There is no pollution of air or water. Hydropower is often available right where it is needed.

Hydroelectric power plants are particularly well-suited to provide peaking when demand for electricity is high and reserve capacity to comple-

ment the output of large fossil-fueled and nuclear steam-electric plants.

These favorable characteristics, combined with increasing shortages and the rising costs of fossil fuels—OPEC's latest increase in the price of oil is 14.5 percent—make hydroelectric power increasingly attractive.

About 35 applications to build major new hydroelectric projects involving

more than 6,000 megawatts of new capacity are pending at the Federal Energy Regulatory Commission. Also pending are preliminary permits to study the feasibility of installing about 16,000 megawatts of new capacity. The cost of all these potential developments is estimated at \$6.7 billion.

R. W. Beck and Associates, a national engineering and consulting firm based in Seattle, reports that all across the lower 48 states and in Alaska its engineers are investigating sites where topography and water resources favor hydroelectric power.

#### Low electric rates

Communities are not alone in the move to harness waterpower. Large utility companies are getting into the act, too. One example is Niagara Mohawk Power Corp., an investor-owned utility that serves 24,000 square miles of northern New York state.

Niagara Mohawk now operates 81 hydroelectric stations with a capability of more than 660,000 kilowatts, or 11 percent of its total generation.

"This is the main reason our residential electric rates are the lowest of the state's major utilities and among the lowest in the nation," says Robert H. Wells, director of communications planning.

Over the next 13 years, Niagara Mohawk plans an expansion program involving 15 projects on nine major streams. The expansion will cost nearly \$200 million and could develop enough power to serve a city with a population of about 160,000.

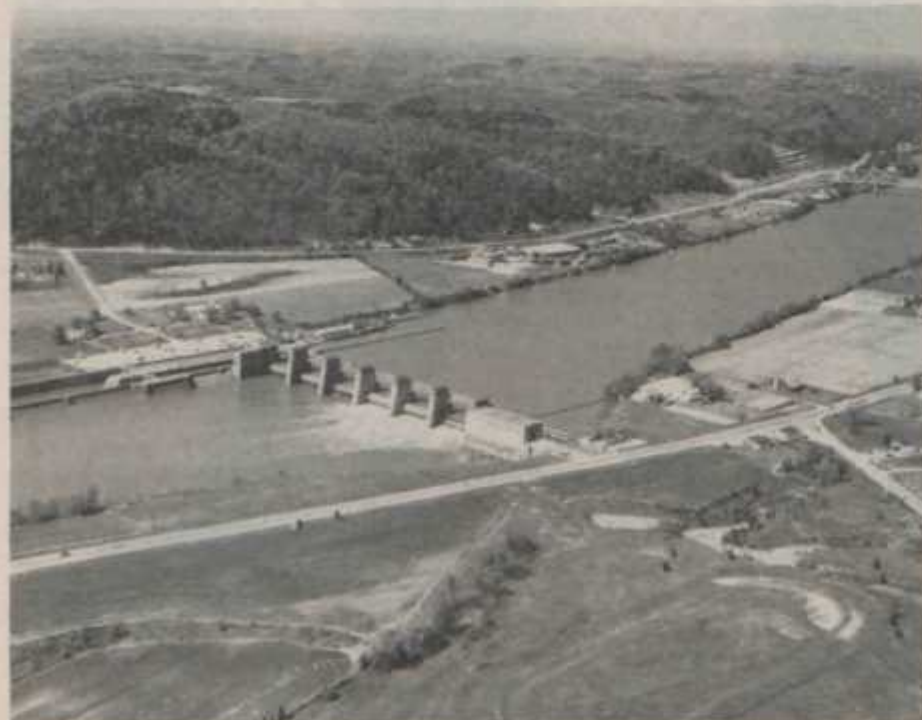
"If the full potential of the expansion program is realized, Niagara Mohawk will boost its hydro capacity by more than 30 percent and save nearly 1.2 million barrels of oil a year," says Mr. Wells.

That is equivalent to a savings of more than \$15 million a year for Niagara Mohawk customers.

#### Feasibility study

The potential of America's underdeveloped waterpower persuaded Congress to include funds for research and loan guarantees in last year's energy act. The government is willing to pay 90 percent of the cost of a feasibility study on repairing unused small dams and installing turbines. The government will also arrange loan guarantees of 75 percent for municipalities.

Without federal assistance, developing potential hydropower would be too expensive for some municipal budgets. In Ogdensburg, N. Y., for example, the



Government navigation dams, such as the Winfield on the Kanawha River in West Virginia, are sources of hydroelectric power. The private powerhouse is owned and operated by a subsidiary of the American Electric Power Service Corp.



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Namely, the labor force that's already living in them.

They want the jobs economic development brings in.

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To learn more about the state people don't want to leave, write: North Carolina Department of Commerce, Industrial Development Division, Suite N<sup>o</sup> M8, 430 N. Salisbury Street, Raleigh, NC 27611. Or call 919-733-4151.

Better yet, send your location man to examine the situation firsthand.

However, once he's here, don't be too surprised if he forgets about going home.

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city is studying the feasibility of rehar-  
nessing a dam that once generated  
electricity for the city's street lights  
and water pumping station. The dam  
was taken out of service about 15 years  
ago.

"At best, the existing site could pro-  
vide only a supplemental source of  
electricity, perhaps to run the city's  
sewage treatment plant or government  
offices," says Mayor Joseph Denny.

"The financial consideration boils  
down to this: When would the value of  
the hydropower generated by the dam  
begin to offset the investment taxpay-  
ers would have to make to refurbish  
the facility? It's a trade-off we have to  
consider."

### Comparing cost breaks

Says Herbert Blinder, director of  
technical services for the American  
Public Power Association: "The devel-  
opment of hydropower, particularly in  
smaller communities, is more attrac-  
tive for some than for others. After the  
initial investment has been made, at  
what point will the price per installed  
kilowatt be equal to or less than the  
cost of fossil fuels?"

The Department of Energy is spend-  
ing \$10 million for research, develop-  
ment, and demonstration of small  
hydroelectricity—defined as power  
produced at dams no higher than 65  
feet by generators with a maximum  
capacity of 15 megawatts.

DOE is now awarding contracts to-  
talling \$2.9 million for 57 feasibility  
studies of proposed hydroelectric pro-  
jects, mostly to publicly owned sys-  
tems.

Later, DOE will help fund hydroelec-  
tric projects at dams where feasibility  
assessments are positive.

The basic goals are to assist the pri-  
vate sector to speed up development of  
suitable dams that lack turbines and  
generators and to encourage public  
and private utilities to install generat-  
ing facilities at new sites.

### Greatest potential

The greatest potential, according to  
the Corps of Engineers' study, exists in  
New England, followed by the Missis-  
sippi Valley and upper Northwest. In  
Vermont alone, there may be 700 un-  
developed or underdeveloped dam  
sites. More than 20 sites are now being  
considered for development by various  
groups.

"Developing small hydro projects  
alone is not the answer to our nation's  
energy problems, but such projects  
could be of significant benefit," says

Alex Radin, executive director of the  
American Public Power Association.

America's existing hydropower po-  
tential, if developed, could save about  
727,000 barrels of oil a day, Mr. Radin  
claims.

"This is seven and a half times the  
savings associated with the President's  
goal of solar heating in 2.5 million  
homes by 1985."

### No convincing needed

No need to convince the people of  
Springfield of that. Town Manager Mi-  
chael Valuk says: "We already know  
that existing generating facilities will  
be unable to meet our peak energy de-  
mands in the future. The hydro project  
is our way of doing something about it."

"We also expect our hydro facility to  
help ease the burden of escalating en-  
ergy costs. Compared to the rest of the  
country, utility prices in Vermont are  
astronomical, and they get worse every  
year."

It is probably no surprise to resi-  
dents of the Green Mountain state  
that a new study by Arthur D. Little,  
Inc., forecasts that New England will  
have the highest average prices for  
electricity during the next decade. The  
Northwest will continue to have the  
lowest average prices in the nation,  
even though users will experience a  
rapid rise in the 1980s, and the South-  
west will have the sharpest increase  
from present levels.

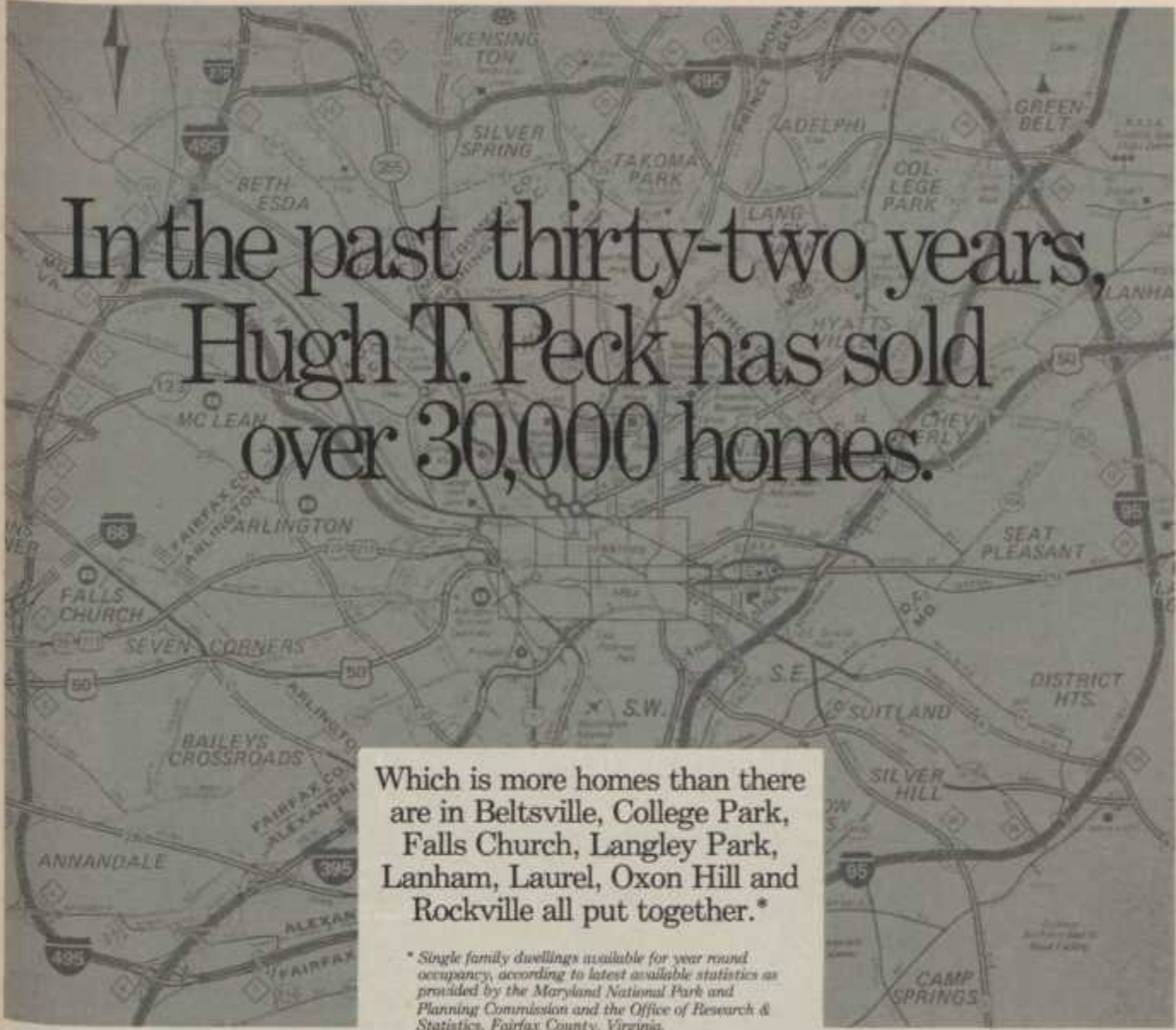
### Markets for surplus

Some towns that have already har-  
nessed nearby water resources have an  
eager market for any surplus electric-  
ity they generate. The village of Lyn-  
donville, Vt., for example, earns a  
profit from a 600-kilowatt plant on the  
Passumpsic River. Springfield is hop-  
ing to do the same.

In Vanceburg, Ky., citizens are plan-  
ning to develop 210,000 kilowatts of  
generating capacity in three naviga-  
tion dams on the Ohio River. They ex-  
pect the move to attract industry as  
well as provide cheaper electricity.  
Enough power will be generated to  
meet the needs of Vanceburg's 2,000  
people; the surplus will be marketed to  
a neighboring utility company.

Says Mayor Howard D. Shelton: "It's  
time that this country woke up to the  
fact that an important resource—wa-  
terpower—is going to waste. One  
210,000-kilowatt plant will barely  
make a dent in the country's energy  
needs, but a slew of Vanceburgs across  
the United States could make a big  
difference." □





# In the past thirty-two years, Hugh T. Peck has sold over 30,000 homes.

Which is more homes than there  
are in Beltsville, College Park,  
Falls Church, Langley Park,  
Lanham, Laurel, Oxon Hill and  
Rockville all put together.\*

\* Single family dwellings available for year round occupancy, according to latest available statistics as provided by the Maryland National Park and Planning Commission and the Office of Research & Statistics, Fairfax County, Virginia.

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## The Dandelion Solution . . .

Sen. William Proxmire (D.-Wis.) plans to introduce a bill in Congress to abolish the Small Business Administration. The bill results from abuse in the SBA's minority loan program.

Considering the past opportunities SBA has provided and the future opportunities SBA can offer, it would be poor judgment to close down the operation because of abuses in minority loans. There is a great difference between a symptom and a solution. The problem is management of SBA funds, not SBA's existence.

Sen. Proxmire's approach makes me curious about his solution for eliminating dandelions . . . is it cutting off the tops?

ED KING, JR.  
King Bearings, Inc.  
Louisville, Ky.

### Viable financing

The reported abuses in the Small Business Administration's minority loan programs are no more cause for abolishing the agency than the thought of abolishing Congress because a few legislators have abused their offices and their responsibility.

Many loans to small businesses have been funded primarily because of SBA programs; these same loans would not have been granted by many bankers without the SBA's guarantee.

SBA has provided very viable financing programs that America's bankers have used to provide needed funds for small businesses.

JIM GLENN  
Vice President  
First National Bank  
Rogers, Ark.

### Patients' demands

Your story on health care costs ["Putting Health Care Costs Under a Microscope," Nov.] was quite well done and contains much information. However, some factors were omitted.

Doctors are blamed constantly for escalating the cost of hospital care, but they do not force patients to come to their offices nor to enter hospitals unless there is a clear need for such action. A very significant amount of medical care is requested or demanded by patients.

Another fallacy is that many people

still want all the advantages of sophisticated, 20th-century medicine at horse-and-buggy prices. The old-fashioned practitioner had very little to offer except his own expertise and charged accordingly. Today, even a

small doctor's office has three or four employees, and 20 percent of the overhead is used to process insurance claims.

The high cost of medical care is not solely the responsibility of physicians;



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rather, it is due to many factors which have become as unmanageable as the federal government. And the surest way to increase these costs is to turn the control of medicine over to the Feds.

E. W. SCHMIDT, M. D.  
Pecos, Texas

#### Why is that?

They tell us that the dollar is weak because we import oil.

Germany, Japan, and Switzerland have the most stable currencies in the world and none of the three produces a barrel. They have to import all their oil.

Maybe you could clear up this mystery some day.

ROBERT L. CHENOWEYTH  
Stifel, Nicolaus & Co., Inc.  
Enid, Okla.

#### Stamp of success

Thank you for the article on stamp collecting. ["It's a Magical History Tour," Jan.].

As a long-time stamp collector (Kantanga, Fiume, and other dead countries), I was happy to see an article in a business publication which stressed the pleasures of stamp collecting and

almost completely bypassed its investment potential.

For most people who are into stamps, the real pleasure comes from the chase, acquisition, and possession of these marvelous pieces of paper. Too many people who invest don't have the slightest idea of what they are actually doing.

JOE BABICKI  
Controller  
Kindair Corp.  
Monterey, Calif.

#### Ace in the hole

The energy article was excellent—["Energy: Here Today, Gone Tomorrow?," Dec.]. Similar articles are appearing more and more frequently in the press. Yet, does anyone listen as the clamor for regulatory reason reaches a crescendo?

As for "keeping coal in the ground," your article failed to mention the following laws which are also doing just that: Antiquities Act of 1906, Historic Site Act of 1935, Bald Eagle Protection Act of 1959, Fish and Wildlife Coordination Act of 1958, Migratory Bird Treaty Act of 1918, Wilderness Act, and Federal Land Policy and Management Act of 1976.

Under this act, the Bureau of Land

Management and Interior Secretary Cecil D. Andrus have chosen 24 criteria to determine if federal coal lands are unsuitable for coal mining. Criterion No. 4 alone could delay mining, or even leasing, of certain lands until 1992, the final date by which Interior must make its recommendation to Congress on the suitability of these lands for wilderness status.

Such potential delays are all the more mystifying when proposed by an administration which has stated that coal is our ace in the hole.

Aces don't help when you fold your cards.

GEORGE G. BYERS  
Environmental and  
Regulatory Coordinator  
Western Coal Co.  
Albuquerque, N.M.

#### The message

The message to 96th Congress bill-board held by the Statue of Liberty on January's cover lists two directives—Fight Inflation and Promote Real Economic Growth—that should not have appeared. As is well known, our Congress fights and promotes by throwing vast sums of money at the problems.

Cut Spending and Taxes and End Needless Regulation, and we will enjoy

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# INTRODUCING THE



reduced inflation and real economic growth as a natural consequence. We need to get government off our backs and out of our pockets.

DONALD G. LAWSON  
Hendon & Co., Inc.  
Birmingham, Ala.

#### A different view

I disagree heartily with those readers, including a Phoenix-based partner in my own firm, who have supported the continued disenfranchisement of citizens of the District of Columbia.

To suggest that citizens of the District should be denied the vote because "the people who live there do so voluntarily" is to make a case for stripping the vote from those millions who have chosen to make their homes in New York, Florida, California, Colorado—or even Arizona.

BERT T. EDWARDS  
Arthur Anderson & Co.  
Washington, D. C.

#### Thanks for everything

Don't mean to "slop over," a term used by my modern adult son and daughter to denote an excess of sentimentality, but I must let you know

how much your magazine has meant to me over the past 18 years. Nothing has helped me develop as much as some of the articles in your publication.

I have been teaching at Chesapeake for three years and have used the booklets and reprinted articles sent by you. My students, who are local restaurant managers and owners, have also found them to be most helpful.

WILLIAM (BILL) J. SMITH  
Coordinator of Culinary Occupations  
Chesapeake College  
Centerville, Md.

#### Environmental costs

Jules Backman recites a litany of the costs of regulations imposed by environmental controls. What he doesn't tell are the costs of little or no regulation: From 1972 to 1977, security disability payments went up 156 percent, from \$4.5 billion to \$11.5 billion; cancer disability payments up 167 percent, from \$430 million to \$1.2 billion; respiratory illness up 130 percent from \$330 million to \$760 million.

Chase Econometrics Associates estimates in a 1976 study that between 1970 and 1983 the increase of pollution control regulations on the consumer

price index will average 0.3 to 0.4 percent annually.

The real problem is to get maximum benefits at least cost from environmental regulations. With the American public calling loudly and clearly for the improved quality of life that a clean environment is designed to provide, American businesses would be wise to stop their extreme, biased fulminations against environmental regulations. If they don't, they will suffer a loss of credibility and respect.

It is time for business and environmentalists to work together to secure the most cost-effective goals of a clean environment.

DAVID W. STICKEL  
Associate Professor  
of Vertebrate Biology  
Holyoke Community College  
Holyoke, Mass.

#### Educational depression

In your latest issue, Jules Backman observes that our inflation is caused by monetary policy and deficits. ["Real Causes of Inflation: Monetary Policy and Deficits," Jan.]

Why does our government engage in deficit spending? Because our citizens


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Plants Coast to Coast



want a higher standard of living than they are willing to work for. They still believe in the free lunch and two large and powerful sectors are still promising it—government and labor.

Everybody is a beneficiary of some program, so everybody screams when program cutbacks are suggested. The protests come not just from blue-collar hourly workers, but from salaried, management, local business, big business, state and local government, and federal government employees.

The reason a depression cures inflation is because it is so brutally impartial in its educational process.

BRUCE WALTHERS  
Wm. K. Walther's  
Milwaukee, Wis.

## "What's the use"

Your recent article ["The Dangers of Deregulating the Trucking Industry," Nov.] was the finest article encouraging an expanded bureaucracy that I have recently read.

Views like this certainly buttress a what's-the-use attitude on the part of any of our young people who might want to believe in the free market system.

ROBERT G. SMITH  
Livonia, Mich.

## Inoperative solutions

Your December issue starts out with the cheery directive to choose from the following: inflation, recession, controls. ["Washington Letter," Dec.] Your sources say that these are alternatives. I submit that these are not alternatives; we will experience all three.

I believe it's time to admit that the old solutions are no longer operative.

CARY W. LOOS  
Director of Purchasing  
Ohio Truss Mart  
Perrysburg, Ohio

## A sad day

I read with much interest the article on freight transportation ["A Network of Life's Necessities," Dec.].

I wish you would write an article on passenger transportation. If we have no passenger trains in the future, there will be no way to travel because it is no longer safe to travel in a car.

I do not live in Chicago and depend on the railroads for transportation. If the day ever comes when we have no rail passenger service, it will be a sad day for Illinois.

WAYNE HUMMER  
Partner  
Wayne Hummer & Co.  
Chicago



## Should Defense Spending Be Cut?

**P**RESIDENT CARTER's call for a slight increase in defense spending is shaping up into a guns-or-butter battle with those who favor channeling more money into health and social welfare programs.

The President has asked Congress to increase defense outlays from last year's \$114.5 billion to \$125.8 billion. This is a ten percent hike, but, deducting for inflation, it comes to about three percent. The extra spending will take care of a U.S. commitment to NATO, all of whose other members have pledged to step up their military spending to match Soviet increases.

Replying to criticism that such increases would mean severe cuts in various social programs, Mr. Carter says: "I have not robbed the poor or the deprived or the social programs in order to provide for defense."

One of his major critics, Sen. Ed-

ward Kennedy (D.-Mass.), says "the poor, the black, the sick, the young, the cities, and the unemployed" are being asked to bear a disproportionate share of the anti-inflation burden.

House Speaker Thomas O'Neill exclaims that "I did not become speaker to dismantle social programs that I've worked all my life for." AFL-CIO President George Meany has pledged to join the battle against the social program cuts.

The United States has been spending more for social programs than for defense in the past several years and at a time when Soviet defense expenditures have been steadily rising. In the fiscal 1979 budget, 24 cents of each dollar went for national defense, while 37 cents went for direct payments to individuals through various social service programs.

Soviet tanks outnumber U.S. tanks

by seven or eight to one. In terms of artillery, the United States is outgunned ten to one. America has about two million people in uniform all over the world; the Soviets have about 4.4 million under arms.

In the past 15 years, the Soviet Union has doubled its military budget. The U.S. budget in constant dollars is less than it was in 1961.

When the President's new budget was announced, Patsy Mink, president of Americans for Democratic Action, said: "The administration's claim that more money than ever before is being spent on the poor and disadvantaged is specious and cruel."

"It is a sad statement on President Carter's commitment to the needs of this country when we have to run hard just to stand still."

What do you think: Should defense spending be cut? ☐

PLEASE CLIP THIS FORM FOR YOUR REPLY

Wilbur Martin, Editor  
Nation's Business  
1615 H Street N. W.  
Washington, D. C. 20062

Should defense spending be cut?

☐ Yes ☐ No

Comments: \_\_\_\_\_

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## Why Not Give the District Back to Maryland?

**B**ACK IN AUGUST, 1978, Congress completed action on a proposed constitutional amendment that has received remarkably little attention outside of Washington, D.C. The amendment would convert the District of Columbia into a kind of pseudo-state for certain purposes. The most visible effect would be to give the District two seats in the U. S. Senate—two seats that would be held, at least for the foreseeable future, by liberal Democrats. The proposition merits a long, cool look.

The amendment is divided into four sections. Section 1 says: "For purposes of representation in the Congress, election of the President and Vice President, and Article V of this Constitution, the District constituting the seat of government of the United States shall be treated as though it were a state."

That clumsy provision evidently was drafted by some syntactical butcher with a tin ear for the language. It is a melancholy reflection upon the decline of literacy in the U. S. Congress that so abominable a sentence could have emerged from the legislative process. The next sentence is worse.

Section 2 says: "The exercise of the rights and powers conferred under this article shall be by the people of the District constituting the seat of government, and as shall be provided by the Congress."

Section 3 at least has the virtue of clarity: "The twenty-third article of amendment to the Constitution of the United States is hereby repealed." This amendment gives the District of Columbia three presidential electors.

Section 4 fixes a deadline of seven years after submission, or Aug. 22, 1985, for the states to ratify the proposal.

**U**NLIKE the pending amendment to provide equality of rights under the law for women, which Congress sent out to the states in 1972, the District of Columbia amendment has aroused little enthusiasm. The ERA went off like a Viking rocket; 30 states ratified in the first year. By contrast, the D.C. amendment thus far has failed to ignite; Delaware, North Dakota, Pennsylvania, and Wyoming have rejected the proposal; and only Michigan, New Jersey, and Ohio have approved it so far. To become part of the Constitution, an amendment must win ratification in 38 states. The D.C. amendment plainly has a tough row to hoe.

Proponents offer only one basic argument in support of their proposal, but the argument has much appeal. The argument is for fair play, or in Sen. Edward Kennedy's phrase, for simple justice. The 700,000 inhabitants of the District are subject to the same federal laws that apply to everyone else. They pay the same taxes; they may be drafted for the same

wars. But they have no voice in the writing of such laws. They have a delegate in the House, but he has no vote.

To acknowledge the thrust of the argument is not necessarily to accept the wisdom of the proposed solution. In my own view, the pending amendment is the wrong way to go about reaching a desirable end. There is a better way. Let me get to it in a moment.

The District of Columbia owes its existence to the most incisive, least ambiguous sentence in the whole Constitution. The sentence says that Congress shall have power "to exercise exclusive legislation in all cases whatsoever over such district (not exceeding ten miles square) as may by cession of particular states, and the acceptance of Congress, become the seat of government of the United States." Nowhere



else in the Constitution do we find the intensifying word, whatsoever. The founding fathers emphatically did not want any meddlesome state government interfering with the national government. The founding fathers wanted their own capital city in which Congress would have legislative powers "in all cases whatsoever."

**N**ow, one of the curious things about the pending amendment is that this positive provision of Article I would not be touched. If the purpose of the amendment is to give Washingtonians the same political rights exercised by all other Americans, the amendment plainly falls short. Residents of the District now elect their own city council and school board, but this is by permission of Congress. At any time it pleases, Congress may overrule ordinances of the council. Washington residents enjoy the principle of home rule, but it is a principle kept on a very short leash. The amendment would treat the city "as



though it were a state" for three purposes only. The District would be entitled to two senators and to as many representatives as states of comparable population now have. The District would vote as a state in presidential elections; it might thus have four electors instead of the three to which it is now restricted by the 23rd amendment. Finally, the District would have the powers held by all states to ratify or to reject proposed amendments to the Constitution.

**F**OR A NUMBER OF PURPOSES, the city of Washington already is treated "as though it were a state" in the distribution of federal grants and subsidies. On a per capita basis, in fact, the District is treated far more generously than many states. But opponents make a telling objection in arguing that our constitutional structure is a structure of states that are truly states and not pseudo-states or quasi-states. To introduce a city—even a capital city—into this simple but beautiful structure would be to tack a hen house onto the Acropolis. The perfect symmetry of states' rights and powers, as opposed to federal rights and powers, would be shoved askew.

The probabilities are that not many people would object to modifying the perfect symmetry just enough to give the District one or two voting representatives in a House of 435 members. It is the prospect of two additional senators in a body of 100 members that causes much more serious concern. Certainly, the prospect causes serious concern among Republicans and conservatives who recall the city's overwhelming votes for McGovern, Humphrey, and Carter in the past three presidential elections. Registered Democrats outnumber registered Republicans in Washington by six or seven to one. The city, moreover, is for all practical purposes a company town. Two thirds of the inhabitants work either directly for government or in parts of the private sector that depend upon government. Large numbers of the people are on public welfare—Washington has more families receiving aid for dependent children than such states as Iowa and Arkansas—and these recipients add to a prospective bloc of voters dedicated to the proposition that the bigger the government, the better the government.

**O**PPONENTS of the amendment have advanced the argument—it strikes me as specious—that the proposed constitutional amendment would itself be unconstitutional. That is to say, the proposition would violate the existing provision which says that no state may be deprived of its equal suffrage in the Senate. The argument is that the two senators from the pseudo-state of Washington, D. C., would dilute the equal voting power of the honest-to-goodness states. One does not have to buy that farfetched contention in order to accept a fact of political life: On closely contested issues in the Senate, and especially on motions demanding a majority of three fifths or two thirds, two votes can be crucial.

One other aspect of senatorial procedures has set off alarm bells in conservative quarters. By almost inviolable tradition, senators hold a veto power over the confirmation of persons nominated for the federal bench in their states. If the District's two senators were to exercise the same traditional powers of other

senators in this regard, we might wind up with the anomalous equality of *Animal Farm*, where all the animals were equal, but some were more equal than others.

**U**NDER SECTION 1 of the proposal, the city of Washington would have the Article V powers of a state. These are the powers involving constitutional amendments. In the ordinary case, Congress proposes an amendment that becomes valid "when ratified by the legislatures of three fourths of the several states, or by conventions in three fourths thereof, as the one or other mode of ratification may be proposed by the Congress."

The city of Washington has no legislature. It has a council that exists by the sufferance of Congress. It boggles the mind to think of the D. C. City Council ratifying a constitutional amendment, but that may be the prospect. The pending proposal, however, says in its stumbling way that "the exercise of the rights and powers conferred under this article shall be by the people of the District." Are the people to vote directly in a referendum on ratification of some future amendment? What, if anything, does this language mean?

Fair play, fair politics, long tradition, and constitutional symmetry can be served in a different way. The District of Columbia was formed when Virginia ceded 31 square miles, constituting the old County of Alexandria, and Maryland ceded 69 square miles, constituting its old County of Washington. In 1846, by act of Congress, Virginia's petition to reclaim the largely unused Virginia portion was approved. Voters in the affected area voted in favor of retrocession to the Old Dominion, and by 1847 the transfer was complete.

**I**F THERE TRULY IS a powerful, compelling hunger within the District for full political rights, that hunger can be satisfied in the same way. A portion of downtown Washington housing the Capitol, the principal federal buildings, and the White House could be redefined as the seat of government, and all the rest could be ceded back to Maryland whence it came. This would meet every demand advanced in the name of simple justice. Residents of the reconstituted County of Washington, Md., would create their own municipal government; they would send their own members to the Maryland General Assembly at Annapolis; they would vote for a governor and other state officers; they would participate in the election of Maryland's two U. S. senators; and they would have a full-fledged member of the House to call their own.

To be sure, leading proponents of the amendment say they don't want to be part of Maryland. They want their own perfect little unique fiefdom with powers "as though it were a state." Neither does one perceive any enthusiasm in Maryland for retrocession.

The general thought is that Marylanders wouldn't have the District of Columbia if you gave it to them on a platter. But in this world we cannot always have what we want. If the pending amendment fails of ratification, the road to retrocession could take on new appeal. □



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# Burroughs



# Constitutional Checks Favored

By Dr. Jack Carlson

**A**merican consumers are so concerned about the growth of government spending and inflation that a large majority favors a constitutional amendment to limit the future growth of federal spending and taxes to no more than the growth of people's income.

Seventy-six percent of a nationwide representative sample of consumers supported such an amendment in the first quarterly Consumer Survey conducted by the Gallup Organization for

CONSTITUTIONAL AMENDMENT TO LIMIT FEDERAL SPENDING AND TAXING	
Favor	76%
Oppose	14%
Don't know	10%

the Chamber of Commerce of the United States.

Consumer support for limiting the growth of federal spending is so strong that 77 percent favor reducing federal services and spending if taxes decline by the same amount.

This attitude is based on the fact

ATTITUDE ABOUT CUTTING FEDERAL INCOME TAXES AND FEDERAL SERVICES/SPENDING BY THE SAME AMOUNT	
Favor	77%
Oppose	12%
Don't know	11%

that 62 percent of consumers feel the additional services provided by the growth of federal spending during the past decade are worth less than the additional spending.

Nor do consumers feel that they are getting their money's worth from federal regulation in such areas as health, safety, and pollution. Less than nine

percent of respondents to the 1,563 personal interviews conducted in December favor an increase in federal regulations; 48 percent want a decrease and 34 percent support about the same amount.

## Government excesses

From the survey, it is clear that the American consumer sees the federal government taxing too much, spending too much, and regulating too much.

About half of the respondents most frequently identify federal spending and deficits as the major cause of inflation. A majority of consumers favors slowing down the growth of federal spending and reducing the size of the federal deficit as the best way to fight inflation.

One in five consumers identifies business firms' prices and profits and labor union wage demands as causes of inflation.

About one in four feels that wage and price controls would be effective in the fight against inflation, an ominous signal for those who fear mandatory wage and price controls. In the most recent Chamber-Gallup survey on business attitudes, three of four business leaders believed that mandatory wage-price controls would be imposed before November, 1980.

## Consumer attitudes

Most consumers fear the economic outlook during 1979. According to a recent Gallup poll, 88 percent expect rising prices, and 69 percent expect other economic difficulties. However, the present Gallup survey showed an improvement in consumer attitudes toward federal economic policies on fighting inflation or unemployment.

The administration's recognition that inflation is the nation's primary problem and its efforts to fight its growth have contributed to consumer confidence.

In August, according to Gallup, 36 percent thought government would do a poor job in fighting inflation or un-

employment during the next year or two, but only 23 percent thought so in December.

While not optimistic in the short run, consumer confidence in the economy has shown some modest improvement from August to December. Comparing the short term with the long term, the improvement is much greater in the five-year outlook. People are more optimistic that inflation and unemployment can be resolved in the long run.

The less optimistic views of consumers in the short term are related to inflation and income expectations.

EXPECTED CHANGES IN CONSUMER INCOMES RELATIVE TO ALL PRICES, NEXT 12 MONTHS		
Income will rise:	August	December
Less than prices	49%	52%
Same as prices	33%	33%
More than prices	10%	10%
Don't know; uncertain	8%	5%

About one half of consumers expect their incomes to rise less than consumer prices during 1979. Only ten percent expect incomes to increase more than prices.

Consumers' expectations of a deterioration in their economic conditions during the next year sharply contrast with the administration's forecast that average family income will increase significantly during 1979.

Even when people's incomes have risen more than prices in recent years, consumers appear to be enjoying the improvement less because of the unsettling effect of high inflation. In the long run, a constitutional amendment may be the only permanent solution. □

*Dr. Carlson is chief economist and vice president of the Chamber of Commerce of the United States.*



## THE ECONOMY

### Carter's Budget Has Very Little for Business

Unlike his Democratic predecessors, President Carter failed to take any new tax initiatives in his budget.

There will be no stimulus for business beyond the new corporate tax rates and the extension of the ten percent investment tax credit passed last year.

The only tax proposal in the budget affecting business would speed up estimated corporate tax payments to halt what the administration calls "interest-free loans from the government."

Corporations now pay 80 percent of their taxes through estimated quarterly payments. The balance is payable in two equal installments in the next year on March 15 and June 15. The proposal would increase the required level to 85 percent with only one remaining payment, due March 15.

The administration also wants cor-

porations to make payments on the first of the month—when the government's cash needs are highest—rather than on the fifteenth of the month.

This proposal would need legislative action and would not become effective until 1981. Through it, the administration hopes to add \$1.8 billion to its coffers in fiscal 1981 and \$3.2 billion in fiscal 1982.

### GAO Says Administration Blacklist Is Illegal

Companies don't have to comply with wage and price guidelines to do business with the federal government, according to the General Accounting Office.

The administration wants to blacklist firms that don't comply from bidding on government contracts of \$5 million or more. But the GAO contends that the plan is illegal, inflationary, and the matter could end up in the courts.

The administration's position: "We are legally entitled to do what we are doing," says Treasury Secretary W. Michael Blumenthal.

### Council Will Now Protect Confidentiality

Companies can now send information to the Council on Wage and Price Stability on an "eyes only" basis to protect confidentiality. If the information is not specifically protected under the law, the council will send it back.

Under the new rules, companies unsure of whether they have legal protection of the information they are submitting can get an advance ruling by the council. If the council determines that it can protect the information, it will keep the material. If it legally cannot, the information will be returned to the company, and no copies will be retained by the council.

Currently, certain information on wages, costs, prices, and profits as well as competitively sensitive data is protected by federal law and council regulations. But other information is not.

### Proxmire Wants to Repeal Bank Privacy Provision

Senate Banking, Housing, and Urban Affairs Committee Chairman William Proxmire (D-Wis.) aims to save the banking industry \$1 billion annually by repealing a section of a law he championed last year.

This is the provision in the Financial Institutions Regulatory Act that protects financial records of customers from invasion of privacy when the government conducts an investigation or subpoenas bank records.

Bankers say the law goes too far because it forces them to notify all customers—both past and present—of their rights even if their records are not being sought. The industry claims that the ensuing paperwork will cost \$1 billion; the Federal Reserve Board estimates \$150 million.



Carter budget: Fails to take any new tax initiatives to stimulate business.



Sen. Proxmire's legislation would remove all notification requirements for financial institutions and other companies extending credit. Only the government would be required to notify the actual individuals it is investigating.

## SMALL BUSINESS

### Omnibus Bill Omits Loan-Pooling Section

The expected flurry of small business bills has hit Capitol Hill. The one likely to receive the most attention and have the biggest impact on small business is H.R. 90, the reincarnation of the omnibus small business bill passed last year but vetoed by President Carter after adjournment.

The latest version is virtually the same, says Rep. Neal Smith (D-Iowa), chairman of the House Small Business committee, but omits certain sections to which the administration objected. The new bill appears minus the loan-pooling section and the expanded role of the SBA's Office of Advocacy.

The bill retains the same spending levels for state and local preparation for the White House Conference on Small Business in 1980, and for management assistance programs within SBA, including the small business development center program.

Other bills that will have some impact on small business include H.R. 1379, introduced by Rep. John P. Hamerschmidt (R-Ark.), which would amend the Occupational Safety and Health Act of 1970 to provide small business with consultation and assistance after an OSHA inspection.

And there is a tax relief bill geared to the needs of small entrepreneurs that has been reintroduced by Rep. Richard Schulze (R-Pa.). Among other things, it would allow a small business owner to reinvest capital gains earned from the sale of one business in another without being taxed and would grant a \$5 tax credit for every federal-ly required form or document a small business owner must file.

## CORPORATIONS

### Support for More Liberalized Depreciation

Business may be in for an increase in the asset depreciation range if enough legislators can be convinced it is the best way to spur sagging produc-



Sen. Bentsen: Faster depreciation will boost productivity and investment.

tivity and boost business investment.

Sen. Lloyd Bentsen (D-Texas), a member of the Senate Finance Committee and new chairman of the Joint Economic Committee, has reintroduced his proposal to increase the level of the range from 20 percent to 30 percent. The legislation would also simplify the depreciation table for small business.

The proposal cleared the Finance Committee last year but was replaced by a proposal by Sen. Gaylord Nelson (D-Wis.) to allow three-year straight-line depreciation on the first \$25,000 in equipment each year.

Sen. Nelson has reintroduced his measure which was knocked out of the tax bill in conference last year.

There is powerful support in the Carter administration for more liberalized depreciation.

Presidential inflation adviser Alfred E. Kahn is on the record as saying that more liberal depreciation would encourage investment and increase productivity. Federal Reserve Board Chairman G. William Miller claims faster depreciation is the best method to spur modernization of manufacturing capacity.

### SEC Proposes Rule on Corporate Takeovers

The Securities and Exchange Commission plans to clarify the ground rules covering corporate takeovers and acquisitions, which have mushroomed in the past year.

The SEC wants to give shareholders

of target companies more time to think about and act on takeover offers.

Under proposed rules, the date for commencement of tender offers would be determined, and the company making the takeover bid would have to disclose certain information on that date. This is aimed at halting the runs on stock that sometimes occur.

For the first time, the target company would have the option of either giving bidders a list of shareholders' names or sending out information supplied by the bidder without disclosing the shareholder list. Some companies fear that if bidders obtain shareholder lists, they could be used for other takeover attempts, even if the first attempt failed.

## AGRIBUSINESS

### USDA Reorganization Opposed by Congress

The administration's attempt to reorganize the Agriculture Department is meeting opposition from Congress, business leaders, and private interest groups—a rare coalition.

The Office of Management and Budget recently asked President Carter to consider several reorganization proposals; some are more drastic than others, but all would disassemble USDA in some form.

Most criticized is the proposal that would create a Department of Natural Resources in which USDA's Forest Service and parts of the Soil Conservation Service would be incorporated. Under the same plan, rural business development and community programs now in the Farmers Home Administration would shift to a new Department of Community and Economic Development.

The administration is aware of the opposition of the heads of the Senate and House agriculture committees.

### Prosperity Predicted for Farmers and Ranchers

Agriculture Secretary Bob Bergland says 1979 should be a profitable year for farmers and ranchers.

Farm prices should be buoyed by relatively strong demand from both U.S. and foreign sources, with farmers planting more acreage despite federal set-aside programs.

Low feed costs coupled with rising market prices should make 1979 a



# OUTLOOK



Agriculture's Bergland: 1979 should be a profitable year for farm and ranch.

good year for livestock producers, too.

Mr. Bergland told the Senate Committee on Agriculture, Nutrition, and Forestry that the administration will seek a comprehensive, all-risk insurance reform bill that would provide farmers with better protection against natural disasters and other uncontrollable risks.

Secretary Bergland also has suggested that Congress move to reduce agricultural trade barriers and improve terms and conditions of international trade.

On the bleaker side, consumer demand could wane later this year because of the administration's recent actions to bolster the dollar. And, he says, net farm income could stay in the same range of \$26 billion recorded last year due to rising production costs.

## BUSINESS TRENDS

### Best in the West

Average salaries for middle managers in the United States went up 6.75 percent in 1978, a slight drop from the seven percent hike reported in 1977.

These are some of the highlights

from a survey by Administrative Management Society of Willow Grove, Pa., which found that the average U.S. salary was \$20,167, up from \$18,901 in 1977. The range was \$16,000 to \$27,700.

Plant managers were the highest paid middle managers; payroll supervisors were the lowest paid.

By region, average middle management salaries as of Sept. 1 were: West, \$21,543; East Central, \$20,613; West Central, \$20,028; East, \$19,858; and South, \$19,370.

### Executives Meet the Public

A national survey shows that chief executive officers of both private and public organizations are getting out of the office more often to face the public.

The survey, done by the PR Reporter of Exeter, N. H., covers both the United States and Canada. Compared with last year, its first time for surveying CEO time, the survey shows top executives becoming much more aggressive in the field of public relations.

About 89 percent spent at least some time meeting with outside groups; 85 percent engaged in public speaking; 48 percent lobbied; and 33 percent met with consumer affairs groups.

A third made radio and television appearances and two thirds met with the print media.

### Formica Appeals Trademark Ruling

Despite two procedural losses, the Formica Corp. is still battling to protect its trademark, which the Federal Trade Commission says is so popular that it has become generic.

Formica Corp., founded in 1913 and now a unit of American Cynamid Co., invented and continues to make a decorative plastic laminate known as Formica. It has 40 percent of the market.

The FTC claims that Formica describes all decorative plastic laminates and therefore is no longer protected by the trademark law.

Formica, which lost procedural rounds in the U.S. Patent and Trademark Office and the Court of Customs and Patent Appeals, plans to appeal to the U.S. Supreme Court sometime this spring.

Martin B. Friedman, Formica's president, says the name is a valid trademark and that the FTC does not have authority to challenge a pre-1946

Lanham Act trademark registration. If it loses the procedural battle, Formica will argue the case on its merits.

## INTERNATIONAL BUSINESS

### International Trade Department Proposed

Does the United States need a cabinet-level Department of International Trade?

Senate Majority Leader Robert Byrd thinks so—he and others have reintroduced bills to create such a department to promote U.S. exports and financing aggressively.

An International Trade Department would consolidate the many voices that now form U.S. trade policy including units of the Agriculture, State, and Commerce departments, and could head off the growing protectionist sentiment in the country, the senator from West Virginia says.

Under Sen. Byrd's proposal, the new department would enforce trade laws, monitor trade patterns, and help both large and small businesses compete in international markets.

## PERSONAL BUSINESS

### Most Firms Follow Wage Guidelines

Nearly three out of every four companies have cut back on their pay plans for the current year according to a national survey of 600 companies conducted by Sibson & Co., Princeton, N. J.

The firm found that 63 percent of the companies surveyed will cut their pay increases to an average 7.1 percent in 1979 as a result of the administration's wage guidelines. They had programmed an average increase of 8.5 percent.

### Taxing Perks May Be Up to Congress

Congress may be moving to take the law back into its own hands and keep the IRS at bay on taxing fringe benefits.

Under legislation introduced by Sen. Orrin G. Hatch (R-Utah), Congress, not the IRS, would decide which fringes are taxable.

Specifically, his proposal would restrain the IRS from issuing any and all



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regulations to include employee fringe benefits as part of gross income. Last year's tax bill prohibited the IRS from issuing regulations until 1980. In anticipation of that date, the IRS has targeted 40 specific fringes and perks it wants to tax as if they were part of the gross income.

Fringes pinpointed by the IRS include everything from price discounts for store clerks and free employee parking to education in the form of on-the-job training. But the unkindest cut to Congress may be taxation of its own fringes, such as one tax-free steamer trunk each session.

## GOVERNMENT

### Single Plan Urged for Federal Retirees

The 38 federal government retirement systems, covering more than five million employees, lack an overall policy and should be coordinated under one plan.

That's the conclusion of a General Accounting Office report recommending that:

- Social security form the base for

retirement benefits and should cover all personnel.

- The military's "20-year retirement at any age" be phased out.
- Inconsistent and inadequate costing and funding methods be corrected. Unfunded liabilities now top \$273 billion.

Congressional action would be needed to carry out the GAO recommendations.

### Five Costly Actions

Is inflation produced in Washington? The National Chamber Forecast and Survey Center has calculated the effect of five actions and finds it will add up to three percent higher consumer prices in 1979 with a combined loss in purchasing power for the average American family of \$786.

The cumulative effect comes from adding up the impact of higher minimum wages, higher social security taxes, farm supports, the administration's energy policy, and air quality controls.

### New Regional Economic Commissions Created

President Carter has moved to coordinate economic development throughout the Appalachian area by creating three new regional development commissions.

One of the goals of the Mid-Atlantic, Mid-America, and Mid-South commis-

sions, established along the lines of the existing Appalachian Regional Commission, will be to achieve balanced growth and economic development in these areas.

The new Mid-Atlantic region encompasses Delaware, New Jersey, and counties in Maryland, New York, and Pennsylvania not in the Appalachian region.

The Mid-South region comprises the non-Appalachian counties in Alabama, Kentucky, Mississippi, and Tennessee. The Mid-America region includes counties in Illinois, Indiana, Iowa, and Ohio.

## ENVIRONMENT

### Year's Delay Sought for Clean Air Plans

The states may get a breather on the Clean Air Act.

Only a handful of states plus the District of Columbia made the Jan. 1, 1979, deadline for filing plans to comply with the stringent provisions of the act, and nearly all must have plans approved by June 30.

Rep. Wes Watkins (D-Okla.) has introduced a bill to give states until July 1, 1980, to get their plans approved. The cause of the missed deadline is the 1982 attainment standards program that may require states to adopt transportation control plans, tighten auto inspections, and pressure industry to retrofit existing facilities with pollution control devices.

## SMALL BUSINESS

### Much More Needs to Be Done ...

"The President and Congress have begun to lay groundwork for federal actions that will improve the state of small business," says the second special report on the state of small business from the Chamber of Commerce of the United States.

"Yet, much more needs to be done ... it must be recognized that small business is in a real sense an instrument by which the nation can deal with many of its most stubborn problems, including some which are not likely to be relieved except by the collective potency of a thriving small

business community," says the report.

The report, which was sent to President Carter, says that the most significant gains in 1978 were intangibles: signs that the administration is listening more to small business, regional and state meetings leading up to the White House Conference on Small Business in 1980, and new legislative initiatives in the 96th Congress.

Realistic gains were realized, the report says, when Congress acted to trim corporate income tax rates at the lower end of the tax schedule, improved capital gains tax treatment, and established the Office of Advocacy, Planning, and Research within the Small Business Administration.

On the other hand, the report calls inflation, the voluntary wage-price guidelines, and lack of access to capital

formation the most urgent problems faced by small business.

"The wage-price guidelines place unreasonable burdens on small firms since most often they cannot control prices of products or services."

Among the recommendations:

- Greater corporate tax cut for small business than was enacted last year.
- A maximum rate on personal income of no more than 50 percent.
- Full deferral of tax liability on profit from the sale of equity in a small business if the proceeds are reinvested in another.
- Removal of present ERISA penalties for trivial errors on reports of pension and retirement plans.
- Closer congressional oversight of regulation.



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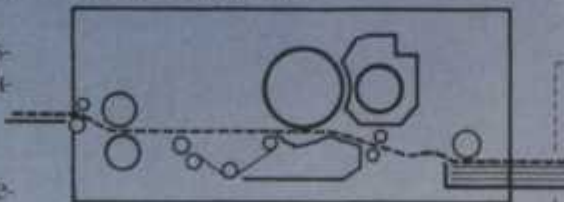
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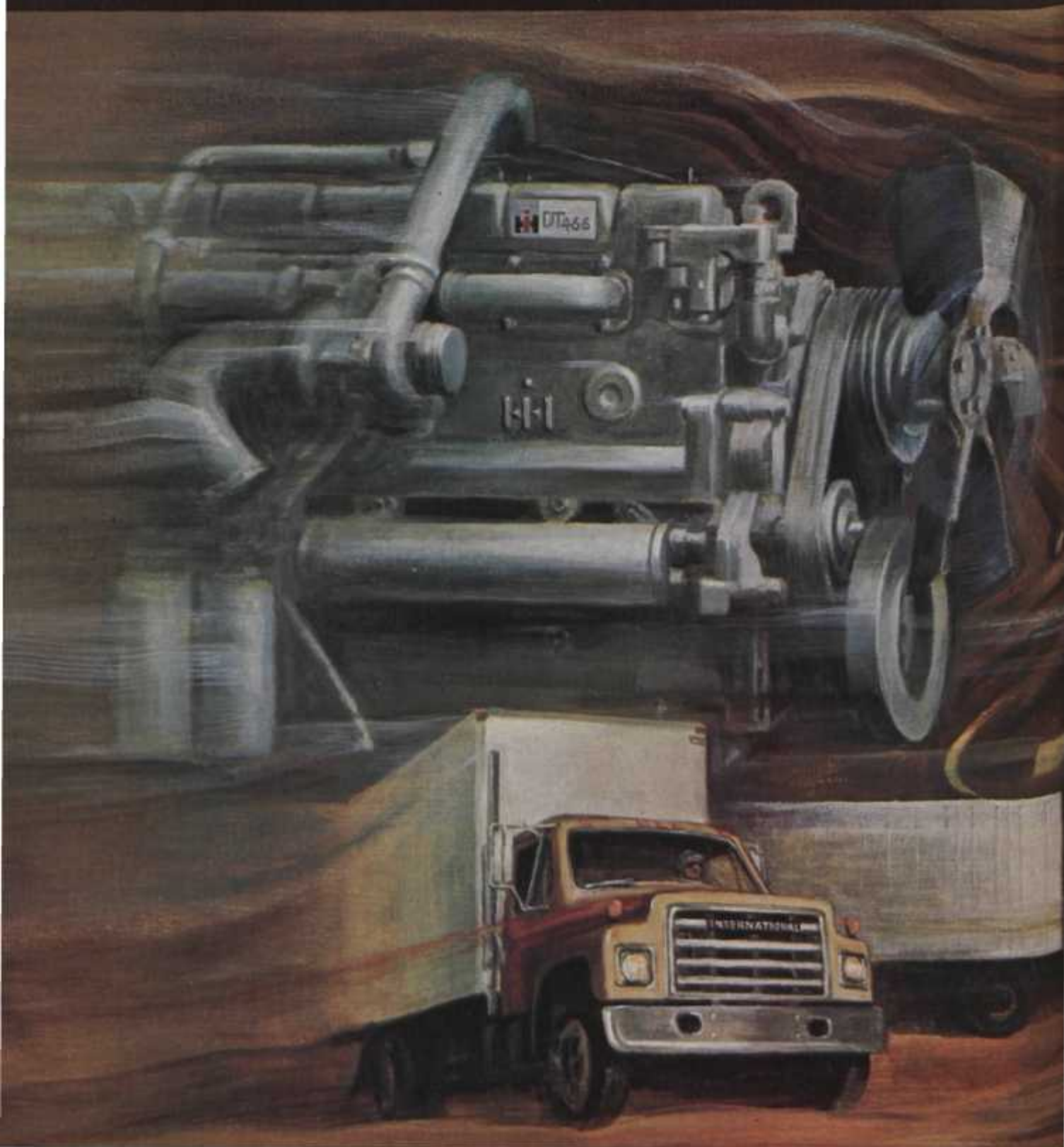
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Professional basketball players' salaries have climbed from an average of \$20,000 in 1967 to about \$143,000 today. Athletes say their limited careers justify the megabucks they earn.

PHOTO: IRA H. WHEELER—ERIPHO



PHOTO: N. KANE—UNIPRESS

The Ft. Lauderdale Strikers and the other 23 teams in the North American Soccer League drew 4.7 million fans in 1978. Some say soccer may soon top football.



Bjorn Borg, the world's second ranked tennis pro, receives thousands of dollars for personal endorsements.

PHOTO: IRAGO RAYE

A group of novice downhill skiers prepares to join the 21 million or so Americans who are part of the sports culture. The active life-style means billions of dollars to business.





## OUR SPORTS CULTURE

# The Games People Play —and Pay to Watch

Athletics, professional and amateur, and the exercise industry are a winning combination

By Tony Velocci

**N**OSTALGIA buffs call the Twenties the golden age of sports.

They are wrong. The golden age of sports is now, and the American passion to participate, view, and bask in the glory of athletics has created a sports culture which generates billions of dollars annually.

Attendance figures at professional athletic contests are up. Major television networks pay hundreds of millions of dollars for the right to telecast sports events worldwide. Memberships in health spas are spreading like colds at the height of the flu season, and exercise togs have become the in fashion.

### Idolized and merchandized

Professional athletes are modern-day heroes. Annual sports salaries equal—and in some cases surpass—those of top business executives, and that doesn't include the megabucks star athletes can earn through testimonials, product endorsements, and public appearances.

Manufacturers of sporting goods were known to only a few thousand dedicated amateurs not too many years ago. Now, many of the 4,000 companies that manufacture, distribute, and market sporting goods are as widely known as fast-food chains.

More people of all ages are participating in sports for fun and exercise than ever before. Tennis, for example, is now played by more than 29 million Americans, or 13.8 percent of the population, compared with 5.6 million 16

years ago, according to the United States Tennis Association. Similar statistics are found in other sports as well.

What does it mean? "America has been transformed into a society of sports participants," says V. L. Nicholson, director of information of the President's Council on Physical Fitness and Sports. "About half of all adults and a large percentage of children follow a regular exercise program."

The growing number of people who participate in sports—and support the multibillion-dollar sports industries—range in age from eight to 80.

Among youngsters, the rising star of sports is soccer. Fifteen years ago, the American Youth Soccer Organization was founded with only nine teams. There are now 11,000 teams with more than 200,000 active members—boys and girls—in 205 regions.

### Community groups

Several years ago, a consortium of Michigan universities was formed to determine the influence of agency-sponsored athletic competition on children.

"We found that Michigan children are much more active than we originally thought," says Dr. Vern Seefeldt, a professor at Michigan State University and director of Michigan's Youth Sports Institute.

The study also concluded that both parents and children want athletic



More than two million men and women belong to physical fitness centers, where the emphasis is on overall conditioning.

competition in their communities. "When schools cancel organized sports, community groups usually fill the void," says Dr. Seefeldt.

Perhaps the most remarkable members of today's sports culture, however, are the 60, 70, and even 80-year-old men who comprise Super-Senior Tennis. More than 1,500 male senior citizens belong to this association, which



was founded seven years ago. Women have a similar organization. National tournaments are played on clay, grass, hard surface, and indoor courts in all age divisions.

Several men in the 70s division have died on the court. "At our age, it's one of the hazards of the game," says SST President C. Alphonso Smith, a 70-year-old tennis buff who plays at least three times a week. "But we would rather die on the tennis court than anywhere else."

Tennis is ninth on the list of the 25 sports with the most participants, according to the tennis association. From 1973 to 1976, tennis was the fastest growing sport in the nation—the num-

ber of players increased by 45 percent.

If any exercise is giving tennis a run for its money, it's probably jogging. The President's Council on Physical Fitness and Sports estimates that nearly 20 million Americans jog regularly; old-timers call it roadwork. More than 50,000 Americans have run at least one marathon (26 miles, 355 yards).

Bicycles, once the standard Christmas gift limited almost exclusively to those under 18, are another favorite among people of all ages—about 105 million, the Bicycle Manufacturers Association estimates.

Since 1960, the number of two-wheelers sold annually in the United

States has nearly tripled, from about 3.5 million to almost ten million. Between the sale of new bikes and parts, the industry could reach nearly \$1 billion in sales this year.

Perhaps the fastest growing sport of all is racquetball. Virtually nonexistent just ten years ago—it was invented around 1950—racquetball is now played by eight million Americans, 30 to 40 percent of whom are women. That number is projected to reach 32 million by 1982.

There are about 1,000 racquetball clubs and 10,000 individual courts across the country. Time-Life, Inc., publishers of *Sports Illustrated*, is investing \$125 million in a chain of clubs.

### Matter of minutes

Why is racquetball so attractive?

"You can put people on a racquetball court, and in the first hour, they'll have fun and exercise, which is what they want," says Jennifer Harding, the number two female player in the country. "The basics can be picked up in a matter of minutes, and beginners can become proficient within weeks."

AMF, whose sale of leisure products in 1977 generated more than \$800 million in revenues, is one of the leading producers of both racquetball racquets and balls. Says Bill Sorenson, a former champion gymnast and vice president of AMF's recreation products group: "Racquetball is following the same course tennis did several years ago, and there are times when we have trouble keeping up with the demand."

Few developments symbolize the surging interest in sports and conditioning better than the coast-to-coast proliferation of health spas, or physical fitness centers. In effect, they have become middle America's country clubs.

### Private enterprises

The Association of Physical Fitness Centers, a trade association formed in 1975, has 80 member companies that own or operate more than 500 physical fitness centers and serve more than two million customers. The average price of a two-year membership is \$25 to \$35 a month.

Most fitness centers are privately owned businesses which cost at least \$250,000 to open and have monthly operating expenses ranging up to \$100,000. Some centers offer retail services, including clothing, health foods, and gym equipment. All of them can tailor exercise programs to achieve

## Sportsmen for All Seasons

Wealthy businessmen invest in professional sports for a variety of reasons—some of which have little to do with money.

Lamar Hunt's investments in professional sports include the Kansas City Chiefs football team, 100 percent; Dallas Tornado soccer team, 90 percent; Chicago Bulls basketball team, 11 percent; and World Championship Tennis, 90 percent.

"As a youngster, I was forever thinking up games to play; my nickname was 'Games,'" he recalls. "As I got older, I developed a fascination for attendance figures. Today, the challenge of drawing people to a game is where it's at for me."

None of Mr. Hunt's investments was made out of charity. One of the goals of each of his sports organizations is to make a profit. "The bottom line is the draw; it has to be," says Mr. Hunt. "If you're not competitive, and that includes paying top salaries to the best talent, then you aren't going to draw, and you are not going to stay in business."

Mr. Hunt has no interest in investing in well-established teams that already have large followings. "There would be no challenge to attract large crowds. If I have any particular skill, it is that I understand what it takes to draw spectators to sports contests."

About 70 percent of Mr. Hunt's time is spent on the entertainment business, which is what he calls professional sports. Most of his money, however, is sunk in Hunt Energy Co.

John Coleman, a major shareholder in the Chicago White Sox, believes that both professional and amateur athletics are important for the welfare of the whole community. "Chicago was threatened with losing one of its two baseball teams," he says. "I wanted to see both remain here. Whether or not a city the size of Chicago can support two teams in the same sport is debatable. For now, however, Chicagoans still have their White Sox."

Adds Mr. Coleman: "Businessmen who invest in pro sports are probably living a deep-down fantasy to play pro sports. As a kid there was nothing I wanted to do more than be a professional baseball player."

Mr. Coleman's principal business interests are three hotels in Washington, D. C., and Chicago, industrial and pharmaceutical packaging firms, a private investment company, and industrial real estate property throughout the United States.

Ted Turner has invested \$20 million in the Atlanta Braves baseball team and the Atlanta Hawks basketball team.

"Professional sports is not my primary source of income, thank God," says Mr. Turner. "Most owners have made lots of money in other businesses. For me, owning two professional teams is nothing more than a hobby."

"Otherwise, I couldn't justify the losses or the agony and grief that go along with owning them."





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"In terms of dollar potential, we haven't even scratched the surface," says Jack Lipsky, a world championship weightlifting coach who develops exercise programs for Holiday Universal, Inc., better known as Holiday Spas. Holiday operates 30 centers in the East and achieved net earnings in 1978 of more than \$1 million. About 46 percent of its members are women.

Predicts champion bodybuilder Arnold (*Pumping Iron*) Schwarzenegger: "By 1985, there will be as many physical fitness centers in this country as there are supermarkets."

### Looking right

The booming popularity of fitness has given birth to a similar boom in apparel and footwear designed for those who actually participate in sports—and those who just want to look as if they do.

Sports footwear and clothing have an annual retail value of about \$243 million and \$3.8 billion respectively, according to the Sporting Goods Manufacturers Association. Team athletic

clothing, a separate category, is worth another \$180 million to \$200 million in annual retail sales.

"The whole athleisure (a new term that has popped up) market is in a state of tremendous growth," says John Gehbauer, the association's director of advertising and promotion. "Five years ago, we thought the industry would taper off after several years, but now we don't see an end in sight."

A major department store chain recently found that about 70 percent of the sports apparel it sells is bought for purposes other than sports. Example: Young girls are buying football jerseys to sleep in.

Equipment consumes an even larger slice of the sports bonanza. According to the National Sporting Goods Association, more than \$15 billion in sporting goods were sold at the retail level in 1977. That figure climbed to nearly \$17 billion in 1978, and a similar increase is anticipated this year.

The world's largest retail sporting goods chain is Herman's World of Sporting Goods, Carteret, N. J. In 1970, when it became a subsidiary of W. R. Grace and Co., Herman's operat-

ed three stores in the New York metropolitan area and had sales of about \$8 million a year. Herman's now has 69 retail outlets in the East and Midwest; 12 of these opened in 1978, and another 20 stores are scheduled to open this year. Herman's annual sales volume is now between \$175 million and \$200 million, according to trade estimates.

### Key to success

"The key to our success has been the store itself," says President Richard Shapiro. "We have clearly defined what our stores are so that we can duplicate them." Most stores are located in shopping malls, and the chain buys large quantities directly from manufacturers, eliminating the middleman in most cases, and then sells its merchandise at prices below those of most competitors.

"This is a very competitive business," says Mr. Shapiro. "There are no skyrocketing profits, and there is an entrepreneur in every hamlet."

Entrepreneurs have found that one of the best ways to cash in on the sports boom is to introduce and market a new or unique product. For example, Scott, U. S. A. and Smith Goggle Co. are engaged in a fierce marketing duel for a well-defined industry—fog-resistant, layered, space-age plastic goggles—that has a retail value of at least \$15 million.

### Aluminum pole

Dr. Robert E. Smith, a practicing dentist and president of the company named after him, designed the first fog-proof goggles in 1969. His rival company, Scott, U. S. A., was founded by Edward L. Scott, who revolutionized the ski pole industry in the 1960s with his design of a tapered aluminum pole that has since replaced the outmoded steel and bamboo versions.

Businesses have long recognized that sports is an effective way to promote names and products. Televised sports events are routinely laced with corporate sponsors. But with the growth of the sports culture, large and small businesses are devising sophisticated marketing vehicles hitched to the physical fitness bandwagon. The advertising, marketing, and public relations dollars directly involved, according to trade estimates, range from \$15 billion to \$25 billion annually.

Last summer, for instance, Perrier committed \$500,000 to help build 150 jogging trails in public parks and on college and school campuses across the

## Tennis and Tourists in the Sun

If major corporations can use sports to promote their products, why can't a country?

About a year ago, Desmond Henry, Jamaica's director of tourism, pondered that question and said: "Why not?" When Mr. Henry heard that World Championship Tennis was looking for a place to stage its 1978 Challenge Cup, he began pushing Jamaica as the ideal site for the tournament.

The match was held in Montego Bay, and the Challenge Cup, videotaped last December by the WCT television network, will be telecast in 15 consecutive weekend shows through May, 1979.

"Sports is big business," says Mr. Henry. "The whole point of enticing WCT to hold the Challenge Cup here was to put Jamaica on film and draw tourists to the country."

That was not all. About 500 individuals from the United States and Europe purchased tour packages for the WCT match, generating about half a million dollars in direct income for the tiny Caribbean island. Mr. Henry esti-

mates that by the time all 15 Challenge Cup segments have been televised, Jamaica will have received the equivalent of about \$5 million in free promotion.

Nearly every top male tennis champion in the world convened at Montego Bay for the Challenge Cup. They included Bjorn Borg from Sweden; Ilie Nastase, Rumania; Vitas Gerulaitis, Roscoe Tanner, Dick Stockton, Harold Solomon, and John McEnroe, all from the United States; and Raul Ramirez, Mexico.

The WCT singles championship was one of tennis's most prestigious and lucrative events; \$320,000 was at stake, with the winner getting \$180,000 and the other players dividing the remaining \$140,000. A box seating six people for the entire six-day, round-robin match cost \$3,000.

"This type of promotion does several things," says Mr. Henry. "It gets Jamaica more recognition on TV and in magazines, it builds goodwill for the country, and it attracts top decision-makers from travel-oriented companies to the island."





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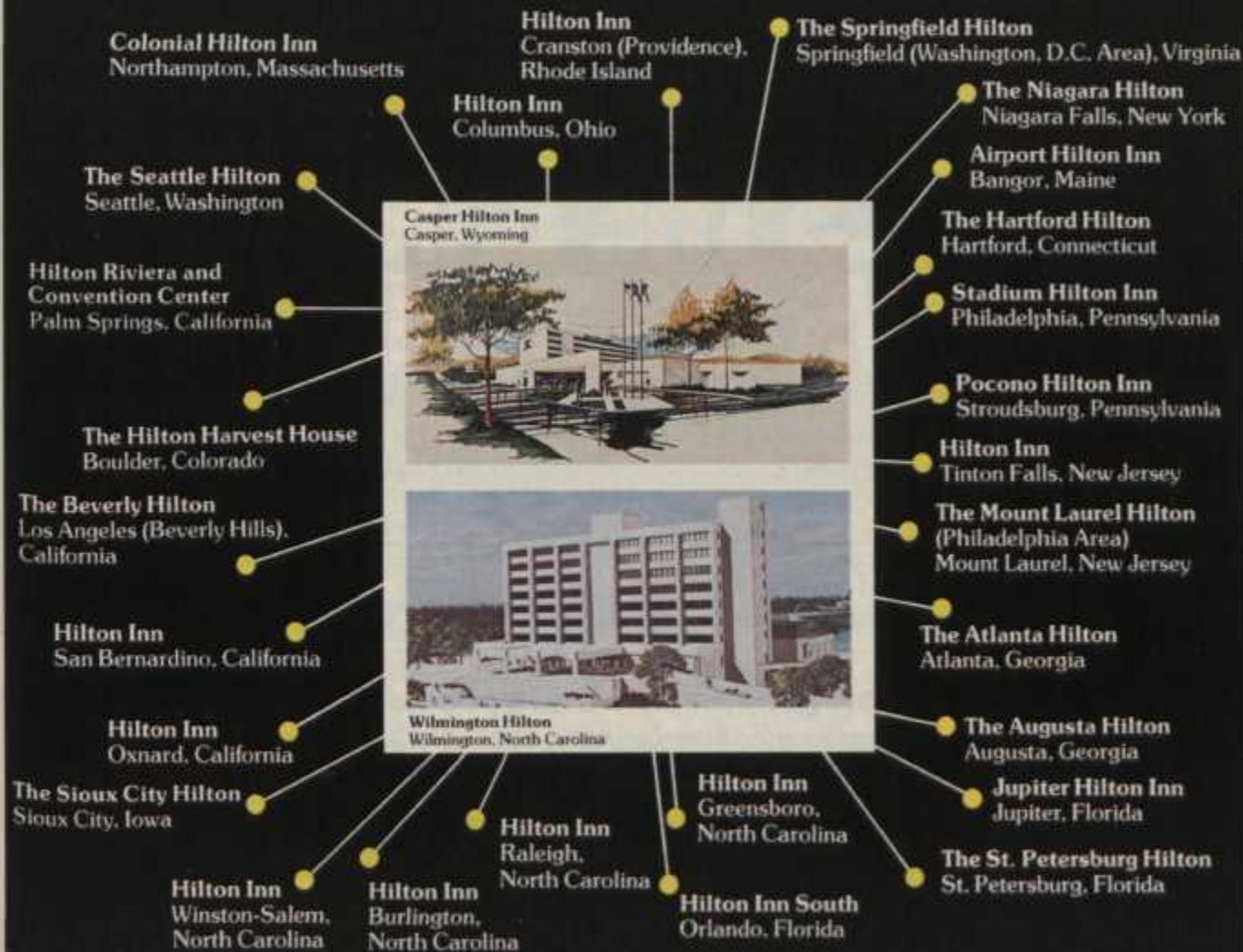
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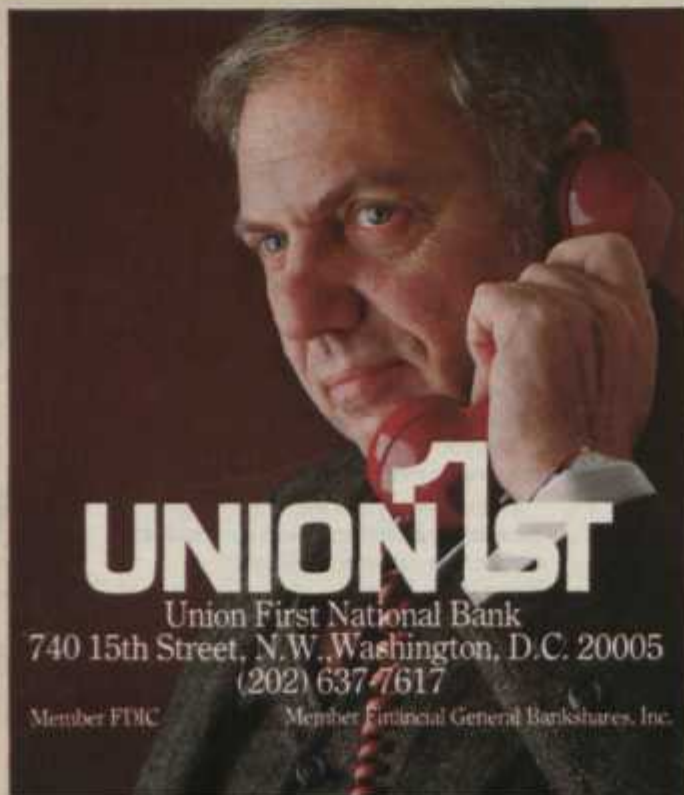
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Marsh S. Marshall, President of Ginns, sums it up this way: ***"Union First takes a personal interest in all of my business problems, and a professional interest in solving them."***



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country. The largest manufacturer of skis in America, K2 Corp., of Vashon Island, Wash., was recently named the official ski supplier for the 1980 Winter Olympics by the Lake Placid Olympic Organizing Committee. K2, with annual sales at about \$40 million, is designing a major promotion based on the filming of K2 skis in Olympic events.

Corporations that spend advertising dollars on World Championship Tennis events use the tie-in in several ways. Volkswagen, for example, goes beyond running standard commercials; during televised WCT matches, viewers see four or five tennis tips sponsored by the German automaker.

#### Mail-order gear

Insurance subsidiaries of INA Corp. make even more elaborate use of its WCT connections. The large financial services company, which sponsors the INA U. S. Pro Indoor Tournament run by WCT, developed a catalog of tennis gear carrying the INA U. S. Pro Indoor logo for mail-order sale to 25,000 insurance agents and employees.

Despite the frequency of sports-oriented television commercials and the

## Sports Is a Mass Production

Sports has been synonymous with the American life-style for more than 100 years. But it is only in the past 20 years that almost everybody has taken up some kind of sport or exercise.

Some theorists trace the phenomenon to the early 1960s when President John F. Kennedy challenged Americans to get into shape. Other people say that the trend started unfolding about 30 years ago and results from an increase in leisure time and the rapid growth of television.

"Since the late 1940s, sociologists have observed an increase in both spendable income and leisure time," says Dr. Barry D. McPherson, an associate professor at the University of Waterloo (Canada). "With the growth of the electronic media, promoters have marketed sports as entertainment. The result is a boom in sports."

Americans spent about \$180 billion on leisure activities in 1978—an increase of 12.5 percent over the previ-

ous high in 1977. Ticket sales at sports events, both amateur and professional, reached \$2 billion in 1978, an increase of about 16 percent. The leading spectator sport was thoroughbred horse racing which drew about 45 million people. Collegiate football alone drew 33 million ticket holders.

In all, at least 255 million sports consumers attended major sports events during 1978.

Dr. McPherson, coauthor of a book entitled, *Sport and Social Systems*, has researched and written extensively about sports in modern society. "The role of sports consumer is one of the most pervasive in North America," he says.

Is the sports culture a fad? "No," says Dr. McPherson. "If it were, it would have died out long ago."

"But sports is heavily dependent upon the mass media, which helped raise it to its current level of popularity."

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Competition knows no age barriers, as illustrated by C. Alphonso Smith, 70, founder of Super-Senior Tennis.

extensive array of sports equipment and apparel, the main attraction of the sports culture is the people who actually earn their living playing sports.

Jimmy Connors, the superhero of tennis, earned between \$900,000 and \$1 million in prizes in 1977. Heavyweight Boxing Champion Muhammad Ali piled up \$5.75 million during the same year.

#### Highest-paid player

In team sports, where there are now about 2,480 players, the average salary of professional basketball players last year was about \$145,000; hockey players earned an average of \$125,000, and football players, about \$60,000.

Currently, the average major league baseball salary is more than \$80,000. But when Pete Rose signed a four-year contract with the Philadelphia Phillies for \$3.2 million in 1978, he became the highest-paid player in major league baseball. His annual salary in a single season will nearly eclipse the \$1 million or so that Babe Ruth earned during his entire 20-year career.

Sports figures have not yet replaced top business managers as the highest paid people in the country, but they're gaining. Says Robert E. Sibson, chairman of Sibson & Co., Inc., human re-

sources consulting firm: "Fewer than 500 business executives in fewer than 200 firms earn more than \$200,000 a year. And in many cases, top executives earn less than many men and women in sports and entertainment."

Most athletes are glad to see their earnings going up.

"Aside from fulfilling his own personal goals, part of a professional athlete's job is to attract people to the event," says 30-year-old Joe Theisman, quarterback of the National Football League's Washington Redskins. "If we can do as good a job as, say, a singer or musician, then why shouldn't we be rewarded on an equal scale?"

#### Limited careers

The average quarterback in the National Football League last year earned about \$89,000.

"Besides," says Harold Solomon, 26, a top-ranked tennis pro whose 1978 prize earnings topped \$400,000, "an athlete has a very limited career. When a doctor or lawyer is just laying the foundation for big money, most professional athletes are nearing the end of their playing lives."

Many professional athletes earn large incomes off the playing field by endorsing products of every conceivable type. Consequently, the life of the professional sports star generally revolves around business managers, tax accountants, investment counselors, and oftentimes, talent agents.

One of the most successful sports agents in the country is Jack Childers of Chicago, who helps shape the financial futures of more than 300 big names, from woman skier Suzy Chaffee to Los Angeles Lakers basketball superstar Kareem Abdul-Jabbar, who earns \$400,000 a year in salary alone.

Mr. Childers is president of two companies: Talent Network, Inc., which handles personal appearances, commercials, and other outside income for top professional athletes; and Talent Services, which negotiates contracts and provides financial counseling on deferred salary payments and tax shelters for the athletes.

#### Today's heroes

"In some cases, we can bring an athlete more from outside sources than he or she earned actually playing the sport," says Mr. Childers. "Athletes are the heroes of today, and they are bigger than life. Their income potential is all a matter of exposure."

Marty Ingels, a former show business figure who now operates a Bever-

ly Hills agency specializing in celebrity merchandising, says: "The marketing of sports figures is big business. As soon as a sports figure earns a big name, I have 35 clients ready to grab him."

A prime example is Bjorn Borg, a virtual walking billboard and the second-ranked tennis player in the world. The 22-year-old Swede is soft-spoken, boyish, and usually mobbed by autograph seekers.

In 1977, he received \$50,000 annually to wear a headband advertising Tuborg, a Danish beer. He was paid \$200,000 for wearing Fila shirts, socks, shorts, and warm-up suits; \$50,000 for wearing Tretorn tennis shoes; and \$2,000 for having his racquet strung with VS gut. Altogether, these and other endorsements earned Mr. Borg an estimated \$2 million that year.

Golfer Pat Bradley earned \$118,057 in various tournaments in 1978. Away from the golf course, she is assisted in her outside endorsements by Jack Drury who runs a celebrity marketing agency in Fort Lauderdale, Fla.

#### Incorporated early

"I incorporated myself early," she says. Two years ago, Ms. Bradley hired a financial consultant and a business manager. "It's a secure feeling knowing that these people are helping me prepare for my financial future when I will no longer be able to compete as a professional golfer," she says.

Despite the lucrative nature of endorsements, some superstars are very choosy about what they will recommend. Brazilian soccer superstar Pele, for example, endorses only those items that he actually uses.

"Cigarette and liquor companies offer me three times more money to do commercials, but I am not interested," says Pele. "I do not use them, and they are bad for the image of soccer."

Is sports big business? It depends upon your definition. "Salaries and endorsement income make many of the headlines, but if you analyze the teams themselves, franchises are not big money-makers," says Lawrence O'Brien, commissioner of the National Basketball Association.

*Sports Illustrated* put the issue this way: "The total gross revenues of all four major pro sports (\$640 million) would pass for petty cash at Exxon (\$48 billion). The annual gross of the average NFL team (\$8.9 million) is equivalent to that of a small supermarket; the revenues of an NBA club (\$4.3 million) put it in the same league with



a large filling station. And even the banner performance by major league baseball (\$230 million) in 1977 was eclipsed by the snuff and chew-tobacco industry."

There are now 101 franchises spread among football, baseball, basketball, and hockey, compared with a mere 42 in 1959. Profits for most organizations are modest, as major businesses go. The average NFL team, for example, showed a pretax profit of about \$4 million for the 1978 season.

But total attendance at major league events topped 70 million in 1978, compared with 68.1 million the year before. Hockey is the only professional team sport whose attendance appears to have declined by a small percentage.

"Professional sports is not the best place to put your money if you're looking for a maximum return," says John Coleman, a major shareholder in the Chicago White Sox. "People who invest in sports teams for the sole purpose of using this as a tax shelter are hurting themselves and the teams."

#### \$25,000 investment

The people who have made big money in sports are those who got in on the formation of a new team or a new franchise. Example: Sports entrepreneur Lamar Hunt of Dallas, Texas, who founded World Championship Tennis and the former American Football League.

He also owns the Kansas City Chiefs football team. Mr. Hunt started with an investment of \$25,000. The Chiefs are now worth an estimated \$12 million to \$16 million. His investment philosophy has been to "go in small where there is promise for the future."

Professional sports derive a major share of their income from television. In fact, the NFL's television income in 1978 exceeded its gate receipts for the first time.

Leagues in each of the four major sports have multiyear contracts with the three major television networks. Total value: more than \$822 million. The richest contract is in football where each team's share of the \$656 million video pie is \$5.8 million. Television revenues in the other major team sports, and the teams' shares are: baseball, \$92.8 million, \$970,000 each; basketball, \$74 million, \$880,000 each; and hockey, \$180,000, \$10,000 each.

#### 60-second plug

Local broadcasting is another source of revenue. In baseball, the top six teams (in terms of dollar amount) re-



Retail sales of sporting goods last year were about \$17 billion—a healthy cut of the U.S. sports business bonanza.



Pat Bradley, who earned \$118,000 last year, considers herself a professional golfer first and businesswoman second.

ceived from \$1.5 million to \$2.5 million each. Then there are the millions of dollars that advertisers pay to telecast their messages during sports events. The price for a 60-second plug during the 1978 Super Bowl was \$325,000.

Looking ahead, cable television offers one of the largest potential

sources of sports revenues. Two regional sports networks already operate in the Northeast and Southwest.

"Cable is the wave of the future because it offers people up to 40 channels instead of the three or four that most homes now get," says Ted Turner, owner of the Atlanta Braves (baseball) and the Atlanta Hawks (basketball). Mr. Turner recently purchased a local television station which reaches about 3 million homes in 45 states by serving cable systems via satellite. His station, WTCG, carries close to 200 live sports events a year.

Just after being named commissioner of the NBA, Mr. O'Brien was asked by a congressional committee if the NBA is a sport or a business. "Because of its unique and highly visible nature, professional basketball should not be regulated by government at any level, but by the same token, the NBA should not receive antitrust exemption," says Mr. O'Brien.

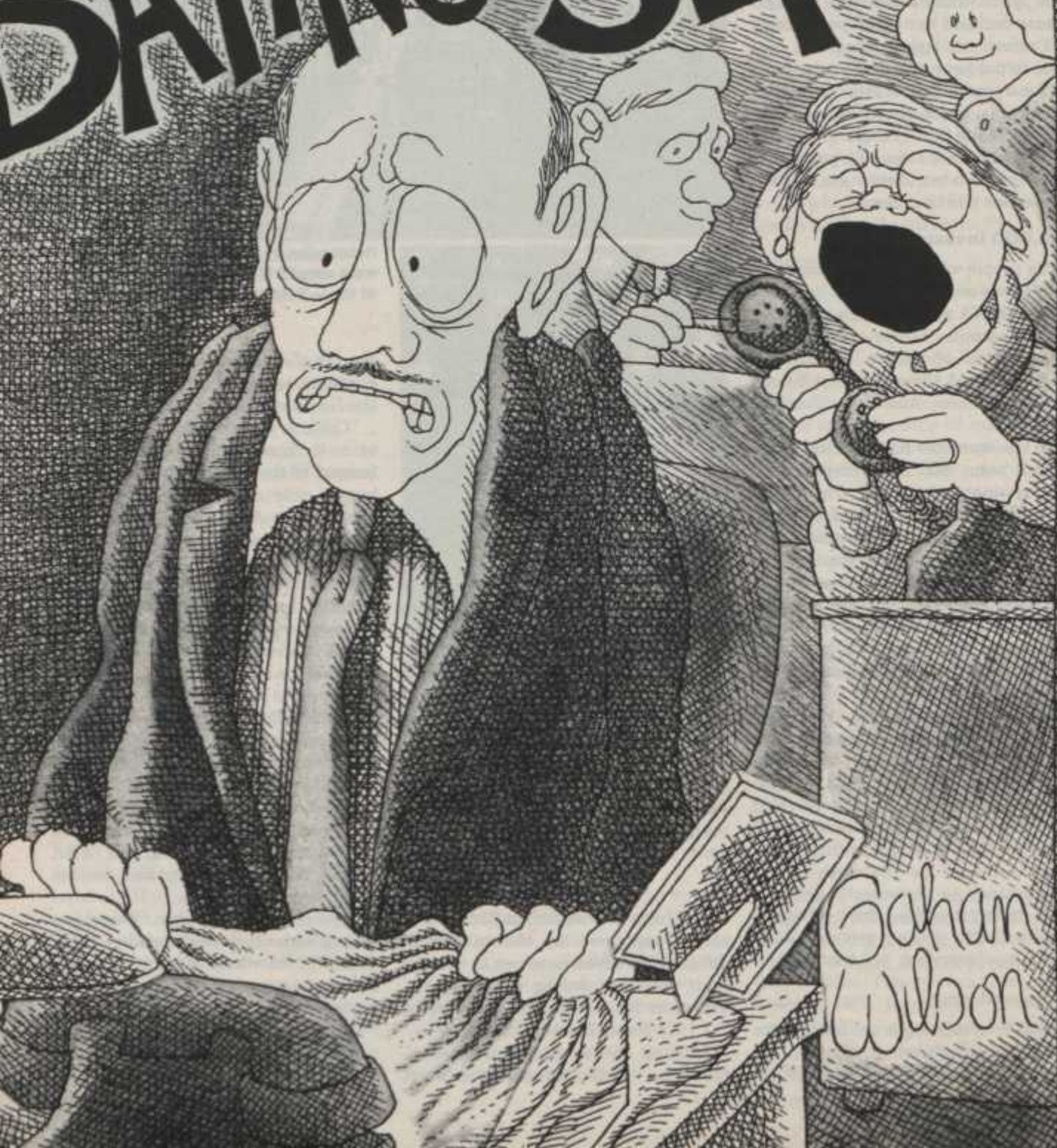
"Sports is fun, and sports franchises have a major civic responsibility to the communities where they are located, but the bottom line is that sports is a business." □



To order reprints of this article, see page 44.



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# The Problems of Privacy

Despite Congress's good intentions, two laws have led to personal and business abuses of confidentiality

By Mary Tuthill

**T**HE GOVERNMENTAL assault on personal and business privacy may be having its last hurrah. Two well-intentioned pieces of legislation—the Privacy Act of 1974 and the Freedom of Information Act of 1966—have led to as many problems as solutions. Some corrective legislation has been approved already, and more is being considered.

A new bank privacy act passed last year requires government officials to notify an individual when they are requesting his bank records. The individual has the right to challenge the request in court before a bank can turn over any records.

The Justice Department is planning to propose legislation to amend the Freedom of Information Act, which, law enforcement officials say, fails to protect the identity of informants and witnesses, especially in criminal cases.

Recently, the department obtained a protective order in two criminal cases to prevent disclosure of documents referring to intelligence sources and methods.

## Flooded with requests

Businesses complain bitterly that trade secrets and corporate information which must be filed with the federal government find their way into the hands of competitors through the FOIA.

The FOIA was intended to open up government files to individuals so that they might know about governmental actions and what information the gov-

ernment might have about them. But the law has been little used for those purposes.

Instead, savvy business people have flooded government agencies with FOIA requests to learn competitors' trade secrets. And criminals quickly learned to use the law to find out who gave information about their activities to law enforcement agencies.

Such uses, albeit legal, are abuses of the FOIA. Coupled with the increasing use of computers and credit cards, these abuses have led to the conclusion by some individuals that they are rapidly losing control over information about themselves and their businesses.

## Incorrect information

The intent of the Privacy Act of 1974 was to ensure that records on individuals maintained by federal agencies are as accurate, complete, and relevant as possible. The goal was to eliminate unfair decisions based on incorrect information.

At the same time, Congress created the Privacy Protection Study Commission which, after a two-year study of the problem, published a 654-page report entitled, *Personal Privacy in an Information Society*.

The report, which contains 162 recommendations for administrative or legislative changes in record-keeping systems maintained by federal, state, and local governments and the private sector, has prompted the introduction of new legislation.

Among the many bills proposed

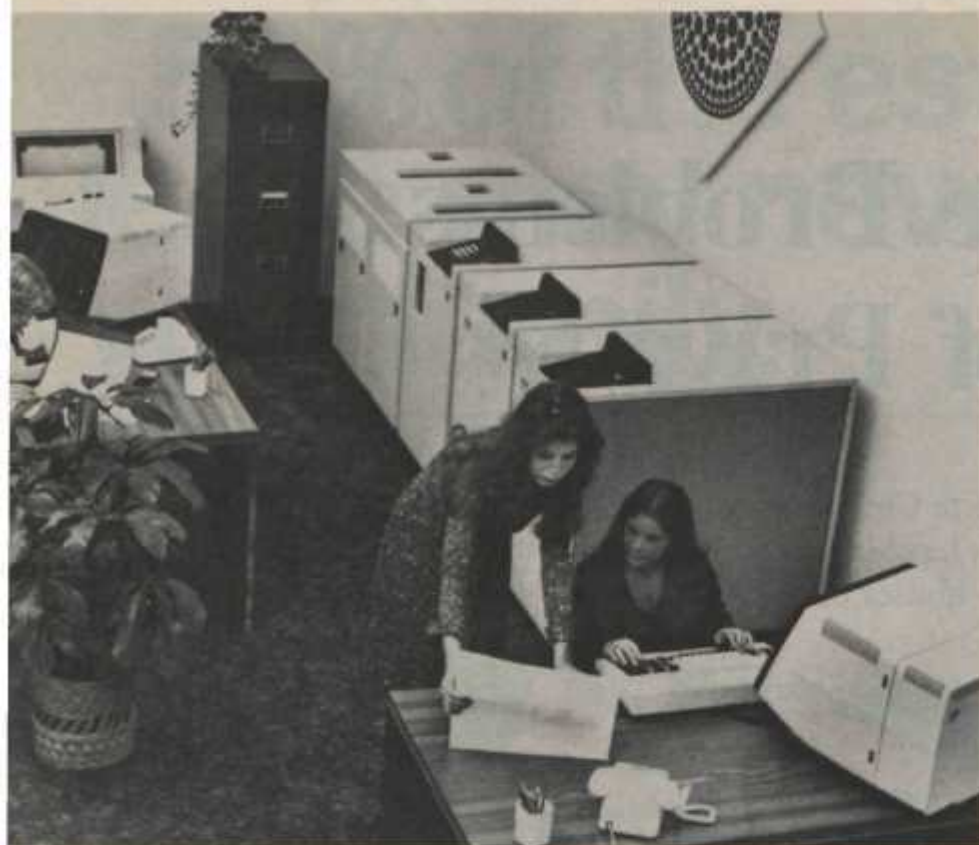


Rep. Richardson Preyer (D.-N.C.) has introduced a bill he hopes will open up the whole question of privacy to a thorough congressional discussion.

since the report came out last year is the Omnibus Right to Privacy Act, sponsored by Rep. Richardson Preyer (D.-N.C.), chairman of the House Government Operations subcommittee on government information and individual rights.

The omnibus bill was not intended to be passed in its present form, says Rep. Preyer. "That bill is for discussion pur-





Because business must file huge numbers of reports with the government to comply with countless regulations, computers churn out reams of information about a company. Disclosure of such information can damage a business irreparably.

poses," he says. "It is too complex and too long. What I think will happen is that we will be breaking off pieces of it." And that is what the 96th Congress is doing.

Rep. Barry M. Goldwater, Jr. (R-Calif.) already has introduced bills which would set up a board to: Oversee compliance with privacy legislation; protect the privacy of medical records; restrict the use of the social security number as a universal identifier; and limit the instances in which federal tax information may be released to state and local governments or information be disclosed about recipients of public assistance.

Rep. C. W. (Bill) Young (R-Fla.), on the other hand, has introduced a bill that would require public disclosure by recipients of federal funds.

The administration is also reviewing its own privacy proposals. Now circulating within the White House is a 207-page report that will provide the basis for legislation that President Carter will propose.

The review group has laid out options for the administration in dealing with:

- How to ensure privacy in an age of computers and electronics;
- How to limit the collection, use,

and distribution of information about individuals;

- How to ensure accuracy of individual records;
- How to promote greater individual access to, and correction of, records;
- How to ensure privacy in mail and other communications systems; and
- How much the federal government should regulate nonfederal information systems.

Although the privacy commission's recommendations cover most aspects of privacy, business is most concerned with the confidentiality of trade secrets and corporate information.

Firms doing business with the government, seeking business loans, or being regulated by the Federal Trade Commission or the Food and Drug Administration must submit voluminous quantities of information to the federal government. And the Supreme Court recently ruled that the FTC may collect still more information through annual product line reports. These reports will contain cost, profit, and other financial data from nearly 2,000 corporations.

What becomes of all this information after it is filed troubles business even more than the ever-increasing costs of preparing the data.

While special interest groups were the strongest advocates of the FOIA, they have made little use of the law, compared to the tens of thousands of requests the government has received from business firms. These requests are aimed at getting a line on competitors' plans, finding sales leads, monitoring regulatory agencies, or obtaining evidence to use in governmental or private litigation.

### Ten working days

There are restrictions on releasing information which "concerns or relates to the trade secrets, processes, operations, style of work, or apparatus, or to the identity, confidential statistical data, amount or source of any income, profits, losses, or expenditures of any person, firm, partnership, or association." But these restrictions are, for the most part, ineffective.

One of the problems is that the sheer number of FOIA requests makes it impossible to screen all the files thoroughly before release and still meet the limit of ten working days in which to respond.

Another problem is that much of the material is technical, and personnel reviewing the files often lack the expertise to appreciate the competitive value of certain business records. The FOIA does not give them time to obtain such information from the company. Nor does the FOIA allow a company to appeal an agency decision to disclose its records.

The Federal Commission on Paperwork recently called for safeguards to ensure that proprietary business information is not prematurely or improperly disclosed.

### Right to know

Specifically, the commission says, business firms should be told what use will be made of the information they submit, what data will be protected, and whether data will be or may be given to other government agencies or outsiders.

Also, the commission says, business information submitted in confidence for one purpose should not be used for another purpose or be disclosed without prior notification to the business involved.

As a result of agency decisions to release confidential business information and the lack of an effective appeals system, numerous reverse FOIA actions are hitting the courts.

The Chamber of Commerce of the United States is involved in a land-



mark case now pending before the Supreme Court. Chrysler Corp. is asking the court to rule that portions of Chrysler's business records were within the FOIA exemptions and should not have been disclosed.

The National Chamber argues that "failure to maintain strong protections for business secrets submitted to the government will result in reluctance by industry to continue to submit information voluntarily."

"Reluctance to cooperate with agencies already has been reported," the business federation says, "and government officials predict that inadequate protection under the FOIA exemptions will further restrict the flow of information to the government. Industry's unwillingness to invest in innovative research and development, whose results may be disclosed to competitors under the FOIA, has been documented in a recent agency report."

#### Personnel issue

Also of great concern to business are employment application forms and the confidentiality of personnel records. Questions include:

- How much personal information

about an employee does an employer need to know?

- Who within the firm should have access to an employee's file?

- Should employees have access to their own files while they are employed?

- Should employees be permitted to take their files with them when they leave the company?

- Should police or investigators be permitted to look through personnel files without a subpoena?

The privacy commission recommended that businesses voluntarily resolve these questions before Congress decides that legislation is needed.

Robert M. Hawk, who staffs the National Chamber's panel on privacy, agrees. He points out that voluntary programs by individual businesses should be the primary way to protect an employee's right to privacy.

However, some programs have caused corporate security directors to complain that their companies' job application forms are useless because they no longer ask for such information as date of birth, sex, marital status, or police records.

Says one disgruntled director: "Po-

lice can't give me the information they used to. Credit bureaus are afraid to come forward, and former employers are reluctant to give information about employees."

#### Governmental forms

A related concern is the use of a person's social security number as employee identification. The social security number is found on drivers' licenses, income tax returns, and other governmental forms.

Many businesses now use this number to identify employees, and many others are considering such a procedure. If Congress passes a bill similar to one which died in the last Congress, making it unlawful for any organization to develop or utilize a universal identifier, companies that have adopted the social security number would have to switch to some other identification.

Of additional concern to business is the unsettled question of how to deal with the flow of private sector data over international borders.

Increasingly, other nations are passing laws depriving U.S. firms of the ability to exchange data between affili-



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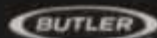
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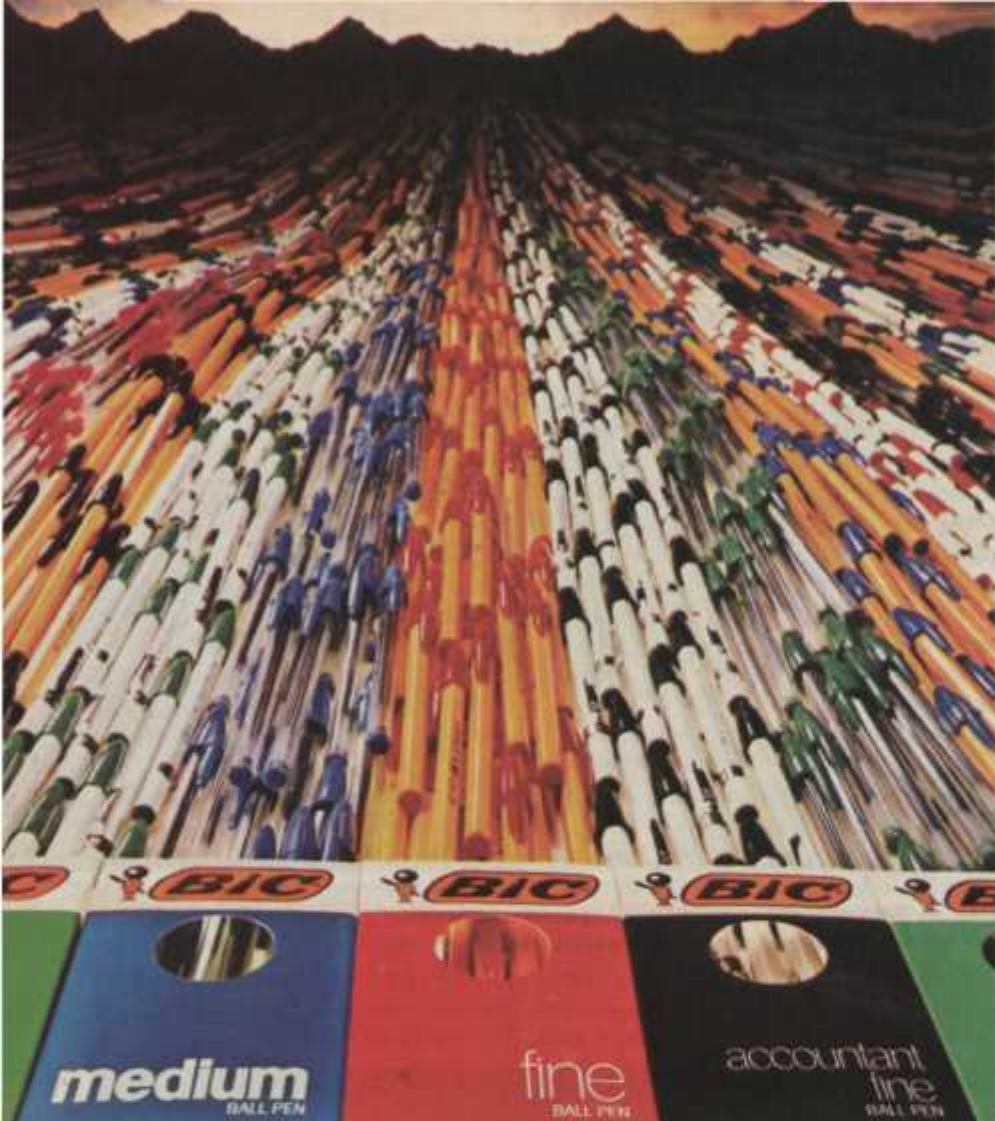
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ates or between other companies. Ostensibly, such laws are enacted to protect their citizens by restricting the outflow of data about them to other countries where computer files are maintained.

Some observers, however, view foreign privacy laws with suspicion. They maintain that these laws really amount to a form of nontariff trade barrier in response to superior U.S. communications technology.

Industry experts and representatives of the State Department have been trying for more than a year to unravel foreign restrictions on transborder data flows. Governmental guidelines for U.S. industry and government delegates on negotiating transborder data flow issues are expected to be released by July.

### Commercial calls

Businesses that rely heavily on telephone solicitation face legislative proposals that would outlaw commercial marketing calls. Sears Roebuck & Co., for instance, has more than 600 people who call charge-account customers to inform them of sales on merchandise.

These personal calls, however, have drawn far less criticism than calls made by automated dialing machines. A computer is programmed to dial sequentially, so theoretically it is impossible to escape these calls even with an unlisted number.

Rep. Les Aspin (D-Wis.) is proposing that phone marketers be banned from calling anyone who has told the phone company he doesn't want to receive any unsolicited commercial calls. The phone company would be required to keep a list of these customers. Firms making phone solicitations would be prohibited from calling anyone on the list.

The cost, says Rep. Aspin, should be borne by firms that do the soliciting.

### A matter of cost

Here again, it comes down to a matter of cost. How much is privacy worth?

The same question can be raised in connection with many of the provisions introduced in the omnibus privacy bill.

Privacy laws already have produced what some business people consider sizable but manageable problems and costs.

The pivotal question is at what point does an added degree of privacy cease to be worth the extra cost to the taxpayer? □



# Major Help for Minority Business Is on the Way

A new law and stepped-up efforts by private and public sectors are aimed at disadvantaged entrepreneurs

**T**HERE ARE AN estimated ten million businesses in the United States; only 400,000 are minority owned and operated. Minority businesses account for less than one percent of all corporate revenue; and a majority of them is engaged in retail or service activities.

Despite the disquieting statistics, or perhaps because of them, the public and private sectors are paying more attention to the problems of minority businesses. Both segments have stepped up their programs—loans, contracting, subcontracting, and purchasing—in a concerted effort to improve the outlook for minority-owned firms.

In the forefront of the effort is the National Minority Purchasing Council, based in Washington, D.C. Supported by about half of the country's largest corporations, the council coordinates corporate purchasing of minority goods and services. It estimates that corporate purchasing from minorities rose to \$1.8 billion in 1978, up from the \$87 million spent in 1972, when the council was established.

That increase, says A. R. Marusi, chairman and chief executive officer of Borden, Inc., New York, and current president of the council, shows what business can do to support the minority sector when realistic goals are set.

## Erroneous idea

"We conclude that industry will spend ... \$2.6 billion in 1979 and \$3 billion in 1980," he adds. "Our criteria for corporate membership, including the requirement to report results, and our willingness to set hard but achievable goals should correct the erroneous idea that corporate commitment to minority business enterprise is expedient and short-lived. American industry is



While there are only about 400,000 minority-owned small firms out of a total of about ten million enterprises in the nation, the dream can come true, as proven by George L. Shelton, who owns Shelton's Marketbasket in Washington, D.C.

committed to this program in the long term."

It has been a long struggle for minority entrepreneurs, and even today recognition and equal status are still distant goals, according to many minority business owners.

Some minority firms that do business with large corporations complain about getting the less lucrative contracts and having to wait for payment.

"When you're dealing with any of the Fortune 500 companies," says Lee Young, president and chief executive officer of Lawndale Packaging Co., Chicago, a minority subcontractor to a major can manufacturer, "you are

really dealing with a nation, not a business.

"How can a \$3.5 million a year business deal effectively with a \$1 trillion a year nation?" he asks.

The National Association of Black Manufacturers, a trade association representing almost 500 black entrepreneurs, would like the council to broaden its goals in promoting minority capitalism.

"Although the pie is opening up a little bit more," says Arthur Johnson, public affairs spokesman, "we still see minority owners grossing substantially less than white-owned businesses in the same category. We're not saying



the council is doing a bad job, but we are asking that it get more involved with minority business by letting minorities become active in the council and show just exactly what problems we are facing."

Achieving equality takes time, says Joan Oglio, associate director of the New York-New Jersey regional purchasing council. "It does not happen overnight. The contacts you make this week might not bear fruit for another year. But that does not mean we're not working at it."

#### One step further

Some larger corporations—General Motors spent more than \$100 million in 1977; Standard Oil Co. (Indiana), \$40 million; and Borden, Inc., nearly \$20 million in the same year—have taken the basic purchasing program one step further by instituting internal

objectives for increasing the amount of business done with minority firms. Some firms have designated purchasing officers specifically to do business with minorities, others have established committees to set goals and to encourage better business relations with minority firms.

Despite some complaints, the program has worked for quite a few minority vendors.

In Chicago, for instance, Joseph A. Williams, president of Arrow Services, says dealing with the Chicago regional purchasing council—one of 35 regional offices—and developing business contacts through it allowed him to expand his retail laundry business to the industrial market. His business also spilled over into manufacturing and selling of uniforms as well as distributing industrial paper products for the Scott Paper Co.

"The success of my business is totally related to my association with the purchasing council. . . . We'd be out of business by now if not for it," he says.

In New York, the story is the same for another company:

Berg Chemical Co., Inc., owned and operated by Hispanic businessman

James Richards, does 33 percent of its business with corporations belonging to the council. Mr. Richards points to business deals with Allied Chemical Corp. and Avon Products, Inc., as directly related to council involvement.

The government, too, has its success stories. The highlight of 1978 was a new law to increase minority business participation in the government contracting and procurement market.

#### More assistance

The new law bolsters the Minority Enterprise Small Business Investment Corporation program, creates an Office for Minority Small Business and Capital Ownership Development within the Small Business Administration to control and coordinate management and technical assistance and subcontracting, mandates that all federal buying agencies appoint an administrator to handle small and minority business programs, and creates a vehicle for greater contract procurement opportunities.

Perhaps the single biggest issue affecting minority business assistance has been settled by the new law—the question of just who does qualify as a

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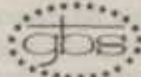
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minority. Blacks, Hispanics, and American Indians are specifically named in the bill as socially disadvantaged in their attempts to secure government business. But the new law requires that in addition to being socially disadvantaged, a minority must also prove economic hardship.

"The bill, as it relates to minority business and economic development, is comparable to the major civil rights victories that we have labored to achieve in the past," says Rep. Parren J. Mitchell (D.-Md.), former chairman of the Congressional Black Caucus and long-time advocate of minority economic development.

"Minorities are still faced with the traditional problems of going into business for themselves," he says. However, he adds, the government has done an excellent job over the past five years to open up procurement to minorities.

#### \$1.2 billion in 1977

In fiscal 1977, the government directed \$1.2 billion worth of contracts to minority business. That amount came out of a total \$72.5 billion procurement budget. President Carter has pledged to boost minority contracting to \$3.3 billion in fiscal 1979 and to \$6 billion by 1980.

"In my opinion," says William A. Clement, Jr., associate administrator for SBA's new office of minority development, "\$6 billion is not enough to say that minority business is getting a fair share of the procurement dollar when you consider the billions going out to all private enterprise."

To increase that share, the government is channeling more contracts and subcontracts to entrepreneurs through SBA's Section 8(a) program.

In fiscal 1977, the SBA purchased \$516.7 million worth of subcontracts from other government agencies for minority entrepreneurs. Outside of the 8(a) program, \$675.9 million went to minority firms through direct competitive bidding and contracting with 22 federal agencies.

"In fiscal 1979," says Mr. Clement, "our goal is to contract out \$1 billion through the 8(a) program."

#### Allegations of fraud

What about the allegations that some minority businesses operate as fronts for white owners?

Mr. Clement doesn't deny this happens, but, he says, under the new statute, it will be considerably harder to defraud the government.

"Before we will approve a minority

firm, we must be sure it will meet four criteria: The principal owner of the business must be both socially and economically disadvantaged—a racial, ethnic, or cultural bias plus economic status—compared to others in a similar business; it must be determined that the business has a reasonable chance of survival in the economy of its area; and SBA must be able to provide the business with management and technical assistance."

In addition to the Section 8(a) program, the administration has mandated that federal contracts of more than \$500,000 be awarded to those companies using minority subcontractors. State and local recipients of federal contracts are urged to use minority subcontractors.

When Congress enacted a \$4 billion public works bill in 1977, it required that ten percent of that total be set aside for minority contractors and subcontractors. Recent figures from the Commerce Department's Economic Development Administration show that minorities received \$636 million of the \$3.8 billion awarded.

Aside from the subcontracting and set-aside programs, the federal govern-

ment spent \$531.5 million on loans and loan and bond guarantees made to minority firms during fiscal 1977. There are some notable success stories.

#### \$55,000 sales volume

It took George L. Shelton four tries and an SBA guarantee before he secured a bank loan to take over a supermarket in southwest Washington, D.C. Mr. Shelton had spent eleven years learning the business and wanted to strike out on his own.

With a loan from a local bank—90 percent guaranteed by SBA—Shelton's Marketbasket opened in December, 1976. It is now doing about \$55,000 sales volume in an average week.

Mr. Shelton says he would never have gotten the chance to run his business if SBA had not guaranteed his initial loan. Since then, he has used the administration for management and technical assistance.

"As we minorities have gone from housing to employment to other aspects of life," says SBA's Mr. Clement, "we have been bettering ourselves and our lives. Now we'd like to be employers rather than employees ... to be owners and entrepreneurs." □

Walt Garrison, football and rodeo star.

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# When the Tractors Came Back to Washington



Protesting farmers tractorcaded on Washington, seeking higher price supports and other subsidies. Experts say their demands will not be met.

**H**AMBURGER HASN'T gone up as much as your damn wages," read the sign tied to a tractor chugging along a Washington thoroughfare early last month. The driver was one of about 3,500 farmers who descended on the nation's capital to confront Congress and the Carter administration on agriculture policy.

They came from the high plains, the deep South, the panhandle of Texas, and from the states that border the eastern slopes of the Rockies.

## Stalling the bureaucrats

On the first day, the tractor caravans brought Washington traffic to a near standstill, disrupting work-bound commuters for hours. There were clashes with the police and 19 of the protesters were arrested.

In the following days, the protesters, mostly members of the American Agriculture Movement, cooled down and

settled into a pattern of lobbying their congressional members. They won a few victories, including House and Senate hearings to air their complaints. They told Congress and administration officials that they were being forced into bankruptcy.

## Price supports demanded

Their central demand: Farm price supports should be increased to 90 percent of parity, a monetary value based on a formula created early in this century.

Under the current law, the Secretary of Agriculture has the authority to raise federal price supports to that level if certain conditions are met, but doing so would push prices for commodities such as corn and wheat substantially higher than market levels.

The price of wheat would be increased to \$5 a bushel. The Agriculture Department reports the January monthly average for wheat, the latest figure available, was \$3.02 a bushel.

## Want import supports

The protesting farmers also want higher income supports for cane and beet sugar growers and lower quotas on beef imports when domestic cattle prices are low and U.S. production is high.

Experts predict, however, that farmers will get little, if anything, in the way of additional legislation.

One reason is that farmers, by and large, fared well last year. They produced large food and feed crops. Demand, domestically and overseas, was at high levels; the value of U.S. farm exports rose 14 percent to a record \$27.3 billion. Also, net farm income in 1978 may have reached the second highest level in history, increasing before inventory adjustment to a projected \$28.3 billion.

In addition, farmers' off-farm income, which was \$31.4 billion in 1977, rose about \$3 billion last year. The book value of farmers' total assets in 1978 also increased to \$790 billion.

Donald T. Donnelly, associate director of the Washington office of the

three-million-member American Farm Bureau Federation, says: "The protesting farmers are asking for the best of both worlds."

In drawing an analogy, he said their demands would be similar to workers wanting guaranteed minimum wages, guarantees of jobs, and guarantees of being permitted to work as many hours as they want.

"As long as the protesters ask for 90 percent of parity without calling for strict production controls, they may as well be asking for the moon," he says.

Another big reason the protesters' demands may fall on mostly deaf ears is that those who came to Washington are not totally representative of farmland America. Nor are their demands and their actions, many contend.

## Most doing well

The Agriculture Department says there are slightly more than two million farmers in America. Many of them are faring well, but some are experiencing problems.

Some of these problems have plagued farmers for decades.

For example, farmers cannot control supply as many other businesses can. If demand for automobiles drops off, the auto producer can cut back on production. Farmers cannot. Once they make a decision to plant a crop or put cattle into the fattening process, they have to live with the consequences—good or bad. Farmers are trapped at the very beginning of the decision-making process.

If a drought or a blizzard occurs, farmers can be forced into bankruptcy.

High inflation and the uncertainties of international markets are two relatively new problems affecting most farmers in this country.

Inflation whacks away at U.S. consumers little by little. They are faced with price increases for food, clothing, fuel to drive their automobiles. They grumble, but they pay the higher prices, and most manage to continue their life-styles.

To an American farmer, inflation means the cost of a tractor going up as



much as \$10,000 and energy prices quadrupling over several years. For those who must irrigate with pumps, the increased cost for energy alone can be disastrous. Inflation also means higher wages for field hands, higher land costs, and higher interest rates.

### Exports needed

On the international front, America cannot stand alone when it comes to agriculture. Much more is produced in the United States than can be used. Therefore, the excess must enter the world market with its myriad problems, including the ups and downs of international politics.

What happens to that excess, however, means the difference between profit and loss for many farmers.

Congress and the federal government have established programs to help farmers cope with marketing

problems. Those who participate can obtain federal loans on their crops and even direct subsidies to supplement low market prices.

But there is a problem with this. E. Clinton Stokes, director of food and agriculture for the Chamber of Commerce of the United States, says: "Government programs that artificially raise commodity prices above market levels and impose production controls ultimately throw the market out of kilter and further complicate—rather than solve—farm income adjustment problems."

What can be done?

### Developing nations market

Mr. Stokes says much has been accomplished to expand foreign markets in recent years. He adds, however, that more should and can be done to help develop additional markets for domes-

tic surplus. This would help stabilize farm prices. "America's greatest potential for export is with developing countries," he says.

Allen Paul, president of the Agriculture Council of America, says that possibly an entirely different approach is needed.

His organization and Texas A & M University, held a meeting in December to address farm problems.

### New solutions required

"The farm situation overall has changed dramatically and in a fundamental way in the past five to eight years. The changes require new solutions," he says.

One suggestion centers on the theme that "if we're going to have really effective programs, they have to address different farm groups, not only by commodity but by size." □



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But what happens to the handling when the 300TD is heavily loaded?

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*Car and Driver* agrees: "The back-

end doesn't sound like a crate of empty muffin tins whenever you hit a bump, which is something you can't say for your average wagon. Mercedes-Benz designers have found ways of securely buttoning down all the movable panels that usually cause station-wagon rattles..."

## Good brakes are not enough

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The new Mercedes-Benz 300TD.  
Only 2,500 will be available in the U.S. this year.



Good 4-wheel disc brakes alone are often not enough. The car must also be capable of violent evasive action without loss of control.

And so the new Mercedes-Benz 300TD station wagon has been fitted with the sophisticated steering and suspension systems of a Mercedes-Benz car.

#### Steering that "talks" to you

There is zero-offset steering built into the front suspension of the 300TD to provide more precise steering control in emergency situations.

The power steering itself has "feel." It tells your hands exactly what the front wheels are doing at every moment.

And the suspension is independent on all four wheels. Should one wheel hit a bump in the middle of a corner, that wheel alone is affected, leaving the other wheels independent to maintain their grip on the road. There is none of that alarming, sideways hop-skip-and-lurch that one expects from a less-expensive solid rear axle; the Mercedes-Benz will simply shift a few inches to one side, then smoothly resume its course.

#### It uses Diesel fuel. Sparingly.

The Mercedes-Benz station wagon is no gas-guzzling leviathan. For one thing, it measures a trim and nimble 15 feet 11 inches from stem to stern; it is the length of a Mercedes-Benz car. For another, it doesn't use gas at all.

The powerplant is the remarkable 5-cylinder Mercedes-Benz Diesel. This 3-liter engine is coupled to a 4-speed automatic transmission to achieve a balance of performance and economy. It delivers an estimated 23 mpg.

This estimate is from the U.S. Environmental Protection Agency. *Remember:* Compare this estimate to the "estimated mpg" of other station wagons. You may get different mileage, depending on how fast you drive, weather conditions, and trip length.

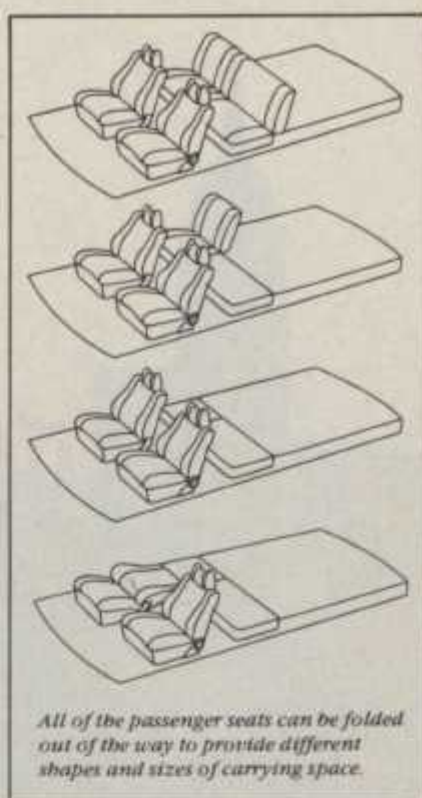
#### A lesson in the use of space

The interior design of the 300TD station wagon is an object lesson in the ingenious use of space.

Raise the tailgate and look for its hinges and damper units. You'll find them tucked discreetly into the roof. It costs more to do it this way, but the Mercedes-Benz engineers wanted an absolutely smooth inner-roof surface so that bulky packages wouldn't snag on outjutting hinges.

There are seats for five adults. All of the passenger seats can be folded out of the way (see illustration, right) in a multitude of sizes and shapes of carrying space.

"If the object is *really* long," noted *Car and Driver*, "say a carton of record-length spaghetti or a python with rigor mortis, that's no problem either. Just unlatch and remove the right-side cushion of the second seat. Fold that side of the seatback forward. Then fully recline the passenger-side front bucket. That leaves an uninterrupted stretch from the tailgate in back to the glove-box door in front. What more could you ask?"



All of the passenger seats can be folded out of the way to provide different shapes and sizes of carrying space.

#### More standard equipment

In typical Mercedes-Benz fashion, the list of standard equipment is quite staggering in its length.

To name a few items: Climate control air-conditioning. Cruise control. A 4-speed automatic transmission.

Power-assisted steering and brakes. Electric window lifts.

Also, an AM/FM stereo receiver with electric antenna. A quartz-crystal chronometer. Wiper, washer, and defroster for the tailgate window. Halogen fog lamps. A pair of outside mirrors, both adjustable from inside the car.

There is even central locking: a turn of the key in the driver's door locks all four doors, the tailgate, and the fuel filler port. Simultaneously.

#### Engineered like no other car in the world

The Mercedes-Benz aim is doggedly single-minded. It is to build safe, comfortable, practical cars with as few imperfections as possible.

This philosophy puts engineering ahead of petty economies and precludes the mass production of inexpensive cars.

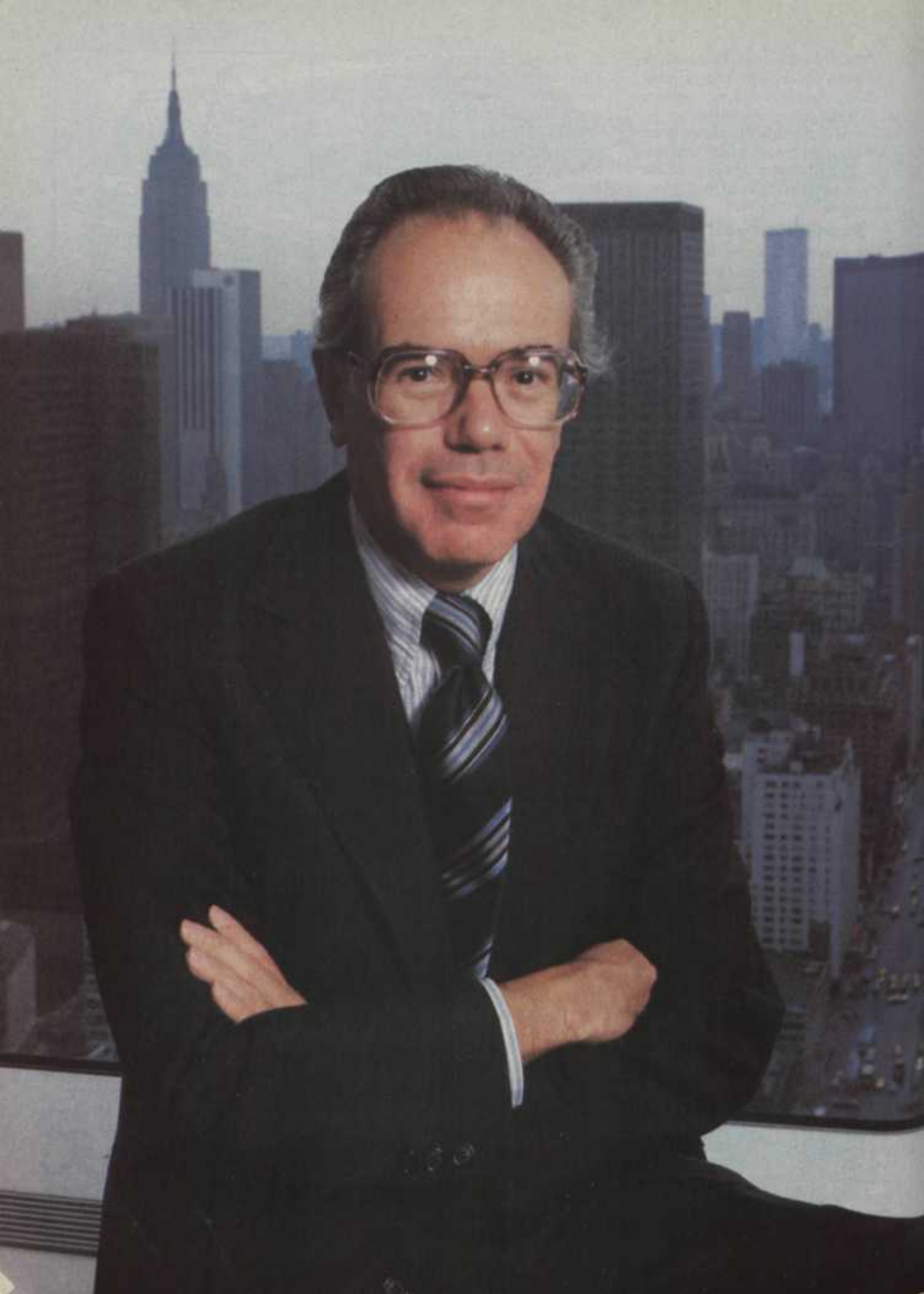
A Mercedes-Benz is engineered like no other car in the world.



Load this space, or add passengers, and a sensor orders the suspension to raise the rear of the station wagon to its normal, most effective level.

The alloy wheels shown are at extra cost.  
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# Charles Bluhdorn + Gulf + Western = an American Dream

By Vernon Louviere

From his 42nd floor office, high above the streets of Manhattan, Charles G. Bluhdorn has a picture-frame view of the Statue of Liberty. To him, it is a symbol of the American dream.

For millions of immigrants fleeing Europe, their first glimpse of this great beacon of freedom leaves an abiding impression. Charles Bluhdorn is no different, except for him there was an added dimension to the big lady's welcome.

Mr. Bluhdorn arrived in New York Harbor in October, 1942, after a harrowing voyage across the North Atlantic. Half the ships in his convoy were sunk by German U-boats. Behind him was London where he had lived through the early years of the German aerial bombardment. He was 16 years old when he stepped ashore in America.

Then, and now, the American dream was something to be held in awe and reverence. In his words:

"The American dream has been in front of my eyes from the day I landed in America. When I started my first job at \$15 a week, my dream was on the way. It is still unfolding."

## Into almost everything

Most people would say that Mr. Bluhdorn has already fulfilled a great dream. In 20 years he has created one of the most dynamic business conglomerates in the United States—Gulf + Western Industries, Inc. Its sales last year soared to \$4.3 billion, and it employs more than 100,000 people around the world. Mr. Bluhdorn has been chairman and chief executive officer since its founding.

Gulf + Western's operations stretch across the entire economic fabric. It is in motion pictures, steel, cigars, clothing, caskets, paper products, tobacco, cement, zinc, books, automotive parts, resorts, and so on and so on.

The launching of Gulf + Western was hardly auspicious. Anyone with less faith in the American dream might not have seen the potential in a broken-down company making rear bumpers for an automobile that was headed for extinction.

After World War II service in the Army Air Forces, Mr. Bluhdorn started an export-import business and built it into a profitable enterprise. But he wanted something with more stability. In Grand Rapids, Mich., he found the Michigan Plating and Stamping Co. and bought it in 1956 for slightly less than \$1 million.

"It was only later I discovered that the only asset the company had was making the rear bumper of the Studebaker," Mr. Bluhdorn says.

The Studebaker automobile was already in trouble and followed the dodo into oblivion a few years later.

Undaunted, Charles Bluhdorn and a handful of investors picked up the Beard & Stone Electric Co., a pioneer Houston auto parts warehouse.

"I had a concept, and it turned out to be correct, that the number of automobiles would expand terrifically in the next couple of decades and all these cars, sooner or later, would need replacement parts."

About a year after the purchase of the two companies, the name Gulf + Western Corp. emerged. A second auto parts warehouse, in El Paso, was

acquired, and the name was changed to Gulf + Western Industries, Inc. The idea, of course, was that the business was anchored in Houston and would be moving toward California and its huge automobile population.

About this time, two of Charles Bluhdorn's friends, David N. Judelson and John H. Duncan, joined the company. Today, Mr. Judelson is president, and Mr. Duncan, former president, is chairman of the executive committee. The three men continue to work closely as a team.

If Michigan Plating looked like a poor investment, Gulf + Western's venture into diversification was hardly more promising. In 1966, Gulf + Western bought the New Jersey Zinc Co., which was on the verge of being dismantled. It is now one of Gulf + Western's most successful operations.

## New glory for Paramount

Also in 1966, the company took over Paramount Pictures, which had been on a gradual slide. Some years later Mr. Bluhdorn said of this acquisition:

"People said we were going Hollywood. But we saw in Paramount the opportunity to take a great name, an institution, to put some zip, energy, and drive into it, and to restore it to its old pride and glory. And I'm happy to say we were able to do it."

As a Gulf + Western property, Paramount has produced such tremendous money-makers as *The Godfather*, *Grease*, and *Saturday Night Fever*. Last year, Paramount came within \$1 million of shattering the industry's all-time high for domestic film rentals.

Gulf + Western began spreading into





Charles Bluhdorn and the late Adolph Zukor, founder of Paramount Pictures, on the occasion of Mr. Zukor's 100th birthday in 1973. Gulf + Western bought the film company in 1966; it is now one of the most successful moviemakers in the world.

every field. Diversification had become the keystone of the company's operations—a means of withstanding the pressures of an ever-changing economy and a vehicle for hedging against shifting technologies and markets. More than 100 companies carry the G+W logo in more than 50 countries.

Under Mr. Bluhdorn's leadership, Gulf + Western's earnings went up and up and up—reaching \$180.5 million last year.

One example tells the story. Twenty years ago, 1,000 shares of Michigan Plating cost \$3,500.

Today that investment, after stock splits and dividends, is worth about \$165,000. The yearly dividend alone is \$8,550.

Two years after Gulf + Western bought Simon & Schuster in 1975, the book publishers earned 2½ times as much as the year before.

#### Management positions

Today, Gulf + Western is investing heavily in the Dominican Republic. Gulf + Western is training and placing hundreds of Dominican workers in management positions. Many social and community programs are sponsored by the company, which is also giving 35,000 acres of land to workers so that they can become independent farmers and landowners.

"What we are doing in the Dominican Republic is of immense satisfac-

tion to me," Mr. Bluhdorn says. "We have to stop flogging ourselves before the whole world. Our system, with all its faults, is still the best system in the world."

Charles Bluhdorn was born in Austria. When Hitler invaded in 1938, Mr. Bluhdorn's parents emigrated to the United States and sent their 12-year-old son to London to live with relatives and to enroll in an English school.

Leaving a bombed-out London and risking his life in a perilous wartime crossing of the Atlantic heightened the 16-year-old immigrant's expectations of what he would find in his adopted country.

He speaks unabashedly of the American dream, knowing, he says, that some people think he is corny. That may be, he says, looking out his office window at the Statue of Liberty. "But this is the greatest country in the world, bar none."

In an interview with a *NATION'S BUSINESS* editor, Mr. Bluhdorn talks about the concept of the American dream, describes how he built Gulf + Western into a giant conglomerate, and spells out his hopes for the future.

**Gulf + Western recently hit the \$4 billion mark in sales. Is that a great milestone for the company?**

Not at all. The bottom line is everything, you know. What is the sense of \$10 billion if you have a deficit? I think

we had a lot of fun when we hit the billion-dollar mark, but we got older. Today, it is like going through college. You graduate and look back at things.

As you achieve this kind of size, you feel more and more responsible for America, and the numbers are no longer as important. You must keep asking yourself: What can you do for your piece of America?

**Did you ever have the wildest idea that Gulf + Western would reach its present size and diversity?**

No, but I never thought of Gulf + Western as being a little company. That was not my mentality at all. I knew there was an enormous potential for growth in the automotive parts business, and that's the direction I was headed.

Would I be satisfied with a company doing \$20 million, \$40 million, or \$60 million worth of business? Definitely not. I did not go from the commodity business, which I built from nothing, to the automobile parts business without any ambition of achieving something big.

The American dream has been in front of my eyes from the day I landed in America. The dream has never left me.

**What was your first job in the United States?**

My family really did not have any money, so I took a job as a clerk with a brokerage firm and immediately enrolled in night classes at City College of New York. I had just turned 16. Later, after serving in the Army Air Forces, I went to Columbia University at night and got to within ten credits of graduating. I finally had to drop out because I was spending more time on my commodity business than on actual classwork.

**What did you major in?**

No one has really asked me that before. I really didn't major in anything. I was studying economics, but I wasn't interested in that. I don't know why I even went to college. I suppose it was an exercise in discipline. I can't honestly say I got anything out of it. All the while I was really attending the school of hard knocks, and that is the best school of all.

**What made you decide to get out of the commodity business?**

I was looking for something with stability. I looked around for the least expensive company I could buy into.



and that turned out to be the Michigan Plating and Stamping Co. in Grand Rapids. It was making the rear bumper for Studebaker, and Studebaker was about to go out of business. I picked it up for less than a million dollars.

At about the same time a group of associates and I bought into an automotive parts distribution warehouse in Houston. While not big, the company had sales of about \$8 million a year. That was in 1957. Everything indicated that the number of automobiles would grow substantially in the next two decades. There would be a need for a system of servicing all these cars. An auto parts manufacturing and distribution business would help us capture this market.

#### How did Gulf + Western get its name?

We were in Houston and looking at expansion into California. Hence the identity. It didn't work that way, of course, because our business expanded to every part of the country. At one time, we thought of changing the name because it didn't mean anything, and we were frequently being confused with Gulf Oil. In the end, we got used to the name and decided to keep it.

#### How did you happen to start diversifying?

One of our directors, Harold U. Zerbe, who had sold his auto parts business to us, was a director of the New Jersey Zinc Co. He told us that a group within the company wanted to turn it into a cash holding company to invest in stocks. That would have been a disaster. Thousands of people would have lost their jobs. It is true that the price of zinc at that time—1965—was not encouraging. But I told Harold: "We ought to take a look and see if we can make an offer to take over the company and keep it as a living entity." We acquired New Jersey Zinc a year later.

#### When Gulf + Western makes an acquisition, do you retain some or all of the management?

We have done our best to maintain people in leadership capacities. Our top objective has always been to build from within the parent company and within the individual companies. That creates a feeling for those people who are moving ahead that not only are they in a competitive position, but also they can be rewarded. All our people know they have an opportunity to participate in the much larger picture.

#### Which acquisition has given you the greatest satisfaction?

Gulf + Western is a family, and I love all of the members. But I have to confess that it is perhaps Paramount Pictures. When we bought it, Paramount was a declining force in the motion picture industry.

**Some of Paramount's greatest financial successes have come since you took over—*The Godfather*, *Grease*, *Saturday Night Fever*. Did you make the final decision on whether these pictures should be produced?**

No. I've had a hand in some decisions but was not involved in others.

Paramount management runs Paramount. However, we do work as a close team.

#### Do you hanker to direct a Paramount picture some day?

Never. I'm trying to direct a company, and that is tough enough. I'm not satisfied with my direction, even in this office, so I don't want to try it in a movie.

#### Are you still high on the American dream?

Absolutely. When you come from an-

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Gulf + Western added another dimension to its diversity in 1977 by acquiring the Madison Square Garden Corp. This brought ownership of the New York Rangers hockey team, shown here, the New York Knicks basketball team, the Washington Diplomats soccer team, Roosevelt Raceway in New York, and Arlington Park Race Track in Chicago.

other continent and see what made America, there are certain myths that hang on. When I was a boy, there were magic words like Union Pacific and Hollywood and Henry Ford and Chicago. It was like floating on a carpet to hear things about America.

I could cry when I think how some of these myths have been destroyed. I enjoy the America I knew 110 percent. But the America of today I do not enjoy 110 percent.

**If you had been born in America, would you be the success you are today?**

No, I don't think so. To have a real appreciation of what the American free enterprise system is all about, you have to be born or raised abroad so you can see the difference between America and the rest of the world.

You could say there is another way to achieve the American dream and that is to be born in a ghetto and fight your way up the ladder. But it's not exactly the same. Even if you come from a ghetto, you have more direct contact with the American fabric.

**In 1975, Gulf + Western placed an ad in several major newspapers expressing confidence in the American economy. Would you repeat that kind of ad today?**

I don't know how much the market is off today, but even if it were off a lot,

I would run the ad again. I will buy America any day of the week.

**We hear more and more about how faith in the American system is being shaken. Can the country be turned around?**

First, you must have respect for the system and its leaders. His politics aside, Franklin D. Roosevelt created a certain magic that made great accomplishments possible. When Harry Truman became President, we heard people saying: "How can a man like that be President of the United States?"

But he made decisions with firmness, with a sense of direction, and with self-confidence. In that period, we had confidence in our ability to do things, and we got things done.

**Are we lacking in this kind of leadership today?**

What we have today is a climate of disrespect for the system and the leadership. A certain paralysis is setting in, a cynicism is taking hold. People say they don't give a damn, they will live today and let tomorrow happen. That is self-destructive.

**Can we recapture that leadership?**

Like everything else, it starts at the top. I refuse to believe that the President of the United States cannot motivate even a Democratic Congress. But

this will require a lot of courage, and decisions will have to be made on a nonpolitical basis.

I have to believe that Washington will go to business and say: "Let's work these things out together." Without the prosperity of the working people, we will not have the kind of America we remember.

No one can tell me that a President who can get Begin and Sadat together at Camp David cannot get Congress, business, and labor to sit down and work out solutions to a national economic emergency.

**You once described yourself as the world's greatest optimist. Are you still?**

Absolutely. But I am frightened by the unbelievable, bureaucratic, very dangerous government regulations that have engulfed our country. This is the essence of everything that has caused and is causing the change in attitude by American business, in terms of ambition, desire, excitement—all the things that made us a great country.

This is a threat to our system. So is the fact that so many people are becoming dependent on Uncle Sam. This is creating a philosophy that all you have to do is put a boat out there, and Uncle Sam is going to blow the wind right into your sails.

That is not the way we built America. That is not how the Mayflower came here. Uncle Sam was not blowing wind into the sails.

**Can the trend toward more government regulation be slowed?**

Well, for my part I'm working on Proposition 13-A which is to build up sentiment to deregulate the regulators.

They have business backed into a corner, scared to death. But I must say that is the fault of business because it is willing to accept the blame for everything, willing to be labeled the villain in every instance.

**You seem to be more outspoken than most business people in this area. Why is that?**

Most business executives want to be left alone. Most don't want to leave their fingerprints behind for fear that ten years later someone will come along and misinterpret their actions. Many don't want to rock the boat. That's why you have more and more of these early retirements at the top.

**Because of these problems, is it get-**



**ting harder for a company the size of Gulf + Western to function?**

Well, I don't really know how you can be productive when the most unproductive business of the corporation today is trying to compete abroad, all the while keeping one eye on Washington.

How successful would we have been in World War II if Gen. Patton, driving his Third Army across Europe, were called back every half hour to confer with General Eisenhower? I blame American business for being willing to sit and take it.

**Do you see any hope that American business will fight back?**

I have not seen it yet, but I am hoping.

**Switching gears, Mr. Bluhdorn, do you read for pleasure or does everything involve business reading?**

Everything I read has to do with business. But you have to remember that I'm in Paramount and Simon and Schuster. That gives me a leg up.

**Do you read fiction?**

Only to the extent that it might make a good movie.

**Do you watch television?**

We have four of the ten biggest hits on the networks, and I like to watch competitive products as well as our own. That makes this part of the business interesting.

**How do you relax?**

My wife says I don't know how to relax. She is convinced that if there were more than 24 hours in a day, I would devote those extra hours to work. That's just the way I am. I live, eat, and drink Gulf + Western.

**How about golf?**

I tried golf only once—about 18 months ago—and that was because we had just acquired a golf course.

I'm not proud of the fact that I don't have these diversions that so many business executives enjoy. But that's the way I am.

**But you still manage to enjoy all the things you are doing?**

Yes, but what I enjoy the most is America, even if it's not the America

we used to know. This is the greatest place in the world to enjoy making things happen, but some of that enjoyment has been taken away from us.

**When you finally retire—if you ever do—what would you like to be remembered for most in life?**

For the fact that I really love this country. Having visited communist countries and having seen other systems of government at work, I've tried to convey to my fellow Americans the fact that I believe they really don't realize how lucky they are.

I would like to be remembered for having tried to carry a message—maybe not hard enough or vocal enough—to my fellow businessmen and to all Americans that there are still many fine hours ahead, if they will only have faith that we can make it happen.

If we lose the superiority we still enjoy, we will become another cycle in history where a strong nation has gone under and been replaced by another. I hope your children and mine never see that day. □



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PHOTO: RICHARD LIPPENHOLZ—LENSMAN



The construction industry maintains that highway costs are increased three to eight percent by Davis-Bacon. Above, Patapsco River bridge at Baltimore.

PHOTO: LES WEXIS—SHUTTERSTOCK



Unions now represent little more than a third of U. S. construction workers, but under Davis-Bacon union prevailing wage rates inflate industry costs considerably.

PHOTO: TED CHARLES—SHUTTERSTOCK



Contractors frequently engage subcontractors, such as truckers. Any violation of Davis-Bacon rules may subject either or both to federal penalties.

PHOTO: BARRY N. BLACKMAN—LENSMAN



Wages for ironworkers and welders may vary by several dollars per hour between Davis-Bacon and prevailing local rates. Worker discontent is often a result.



# Davis-Bacon Needs a Decent Burial

The inflationary act has outlived its usefulness and obstructs minority hiring, but supporters want to keep it alive

By George Fowler

**T**HE DAVIS-BACON ACT, a child of the Depression, has grown up to be a cause of inflation and an obstacle to minority hiring in the construction industry.

Its foes are legion, its supporters few. And the General Accounting Office says it should be laid to rest in the obsolete law graveyard. Senators Orrin G. Hatch (R-Utah) and John G. Tower (R-Texas) agree. They have sponsored a bill of execution to repeal Davis-Bacon.

On the House side, Representatives John M. Asbrook (R-Ohio), John N. Erlenborn (R-Ill.), Thomas M. Hagedorn (R-Minn.), and William R. Archer (R-Texas) have all introduced repeal legislation.

The act was born in 1931 when there were nine million unemployed people in the nation. In many areas, more than a third of the work force was idle.

## To protect local workers

The goal of Davis-Bacon was to protect local construction workers by discouraging federal job contractors from employing migrants who would work for lower wages. The act requires the Labor Department to determine the rates of pay prevailing in an area for various classes of work. These rates must then be paid to workers on federal projects within that area.

Labor Department statistics for 1977 show that prevailing wage determinations were made for more than 15,000 federal projects. The GAO says Labor overpriced wages on about 40 percent

of the projects. This led to about \$500 million in excess wages and added \$215 million in administrative costs.

In condemning Davis-Bacon as unnecessary and inflationary, a draft report from the GAO points out that economic and working conditions have changed drastically since the Depression. When Davis-Bacon was passed, the construction industry totaled about \$3 billion annually, and most of the contracts were financed by the government.

In 1931, there were no minimum wage, unemployment compensation, or other laws to protect workers. Today, construction is the largest single factor in the gross national product, a \$160 billion annual industry. Only a fourth of the industry is regulated under Davis-Bacon. Today, there is a whole panoply of laws aimed at the safety and social welfare of workers.

According to the GAO report, the legislative history of the Davis-Bacon Act indicated that Congress intended that the determined rates should be based on the wage rates paid by private industry. The sponsors of the legislation offered statements and assurances that the act did not require new rates to be established but merely required contractors to pay the rates that had been established by private industry for similar construction.

That was 48 years ago. Today, under Davis-Bacon provisions, contractors must pay their employees in each wage category rates and fringe benefits no less than those determined by the La-

bor Department. Contractors say this boils down to a union-dictated wage structure that often forces cost overruns approaching 20 percent.

Maryland contractor Salvatore J. Glorioso, acting executive director of the Baltimore Metropolitan Chapter of the Associated Builders and Contractors, Inc., says: "The additional costs under Davis-Bacon are hurting us and the economy. Davis-Bacon takes away from the small businessman the right of competitive bidding on a project."

Mr. Glorioso says that in Maryland "85 percent of the dollar volume in construction is now open shop. I've just done a Veterans Administration job with 20 percent extra costs tacked on because of Davis-Bacon. That's ridiculous, and I don't think the American people and the people of Maryland should have to pay that penalty."

## Contradicts commitment

Besides its inflationary impact, Davis-Bacon contradicts the Carter administration's commitment to provide more jobs for minorities and women. Yet, President Carter has assured George Meany, president of the AFL-CIO, and other union leaders that he will oppose repeal of Davis-Bacon.

Under Davis-Bacon, the number of trainees or registered apprentices on federal projects has been limited to a one-to-three ratio, says Mr. Glorioso. That means one apprentice for every three full-time journeymen on a job.

"Well, any idiot knows that one person can't function on the job under the



direction of three people," he says. "One-on-one training is the best, but Davis-Bacon says you can't do that. This limits us in the number of minorities, women, and young workers we can put on. If I have no place to put them, how can I hire them in the first place?"

"On one hand, the government is telling contractors to have X number of minorities and women. On the other hand, Davis-Bacon says you can have only one trainee to three journeymen. How are we supposed to operate under such a contradiction?"

#### Private job

An East Coast contractor complains that Davis-Bacon's pay regulations disrupt and distort local wage practices in an area.

"You take a nonunion employer who has plumbers working for him at \$9.50 an hour," says this contractor. "Then he gets on a Davis-Bacon project that

calls for \$12.50 an hour. He pays his men that \$12.50 for the duration of the project. Then they go back to a private job at \$9.50 an hour.

"When workers get used to the higher scale, they often won't take less. So back in the private market, the price of labor goes up. It never ends."

Another contractor observes: "No other industry has a prevailing wage law like ours. A firm bidding on a federal government contract for computers isn't told to pay particular wages to its employees. That firm competes with others to come up with the cheapest price for an acceptable product. Now why can't this practice hold for construction?"

In previous studies, heavy cost overruns for public and military base housing were found by GAO. Public housing projects in Millville, N. J., and Lancaster, Pa., and military family housing at Langley Air Force Base in Virginia and Tinker Air Force Base in

Oklahoma were compared to local private housing of similar construction and vintage.

In each case, GAO found that the wage rates on the projects were well in excess of those paid on similar private housing projects. In almost every worker classification, the GAO reports, the Labor Department's determination of wages was higher than the private housing rate. "In many instances, the difference exceeded 50 percent."

For the Lancaster project, four fixed-price contracts were awarded for a total of about \$1.8 million. The local contractor offered the local housing authority a \$114,000 price reduction if the Davis-Bacon wage clause on his bid were deleted. But under the laws of 42 states, local authorities cannot accept such a bid.

#### Extra costs

Arthur F. Hintze, director of open shop services for the Associated General Contractors of America, says that whenever the states and cities receive federal grants, they have to impose Davis-Bacon conditions.

"Some communities are canceling federal aid projects because Davis-Bacon costs would be more than the federal contribution would amount to," says Mr. Hintze. "And the federal government can't pay the extra costs that they're imposing on the locality."

The government's hiring stipulations for blacks and women in construction are blocked by Davis-Bacon, says Mr. Hintze. "If a contractor must pay \$10 an hour he will squeeze in as many experienced men as possible for that money. He won't be looking to hire beginners whom he feels he should be paying, say, \$5 an hour."

#### No real gain

And a young building industry executive told NATION'S BUSINESS: "Around the country, many guys my age with only a few work years behind them are interested in purchasing federally aided housing. But when Davis-Bacon gets through with it, they'll be paying a good deal more than they should. So in effect, the extra money they may have made on Davis-Bacon jobs will go to pay for their housing. Maybe more."

From its Washington headquarters, the Associated Builders and Contractors this year announced Operation Watchdog to monitor nationwide Davis-Bacon wage determinations.

ABC President Robert A. Turner says that "we hope to develop public understanding of and opposition to the

## Where Davis-Bacon Went Wrong in Practice

Four examples of the way the Labor Department administers the Davis-Bacon Act show why the General Accounting Office recommended repeal of the legislation in its draft report:

**Fairfax County, Va.** In the construction of a 1.6 mile section of Interstate 66, the Labor Department decided to apply higher wage rates for work on the median strip of the highway because, the department said, the strip may be used for a mass transit system in the future.

The result was that laborers would receive \$4.50 an hour for working on the highway and \$9.68 an hour while working on the median strip. Also, operating engineers would earn \$11.49 an hour for working on the median and \$5.00 an hour for working on the highway. These wage determinations are estimated to have doubled the cost of the median strip construction. The case is currently being contested in the courts.

**Lake County, Ind.** A waste water treatment plant was to be built with a completion date of March, 1977. The Labor Department never made a sur-

vey to determine prevailing wages in the area. Union negotiated rates were always issued, according to the 1978 GAO draft report.

**Monmouth County, N. J.** A painting and refinishing project for a building at Fort Monmouth resulted in an estimated four percent increase in costs because of Davis-Bacon.

GAO's 1978 draft report showed a crazy quilt of wage rates for laborers and painters. Some rates issued by the Labor Department were higher or lower than those actually prevailing.

**Dickson County, Tenn.** The project was building a chlorine room for a water treatment plant. The GAO 1978 draft study showed that the Labor Department never made a wage survey in the county but instead was using rates established more than 50 miles away in the large city of Nashville.

As a result, GAO estimated that the construction costs were increased by about eight percent. Subsequently the wage determination was appealed, forcing the Labor Department to conduct a survey.



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act; to convince Congress and the Carter administration that it needs to be repealed or at least reformed."

Last December, *The New York Times* called Davis-Bacon a bizarre contradiction. The paper editorialized that "the best possible reform would be to erase it from the books. That, unfortunately, would be extraordinarily difficult; not surprisingly, organized labor bitterly opposes repeal since the law reduces the incentive of contractors to hire nonunion workers."

The newspaper may have understated the difficulty of repealing the act.

### Lack of attention

James M. Stephens, assistant labor counsel specialist on the minority staff of the House Education and Labor Committee, says: "It's hard to predict whether we'll even get hearings on Davis-Bacon. It has received inadequate attention, with no hearings to speak of over the years. The GAO report should prompt the committee to move, but it will be pretty difficult."

Mr. Stevens observes that the committee, chaired by Rep. Carl D. Perkins (D-Ky.), is much more liberal than overall House membership. "Legislation which came out of it last year was more liberal than the House generally," he says.

Rep. Ashbrook, ranking member of the Education and Labor Committee, does not agree that Davis-Bacon is untouchable. "If we can get enough grassroots pressure on the committee and on Congress, there is every chance for repeal," he says.

"We've already shown we can stop enactment of bad legislation like common site picketing and labor reform. Now, with Davis-Bacon, we face an affirmative test."

### Uphill battle

Rep. Archer says: "It will be an uphill fight, but I really don't think it's impossible if the facts get out to the American people, if the sense of what Davis-Bacon really is becomes obvious."

Sen. Hatch says that Davis-Bacon "makes government an accomplice in cost and price excesses in the construction industry."

Sen. Hatch notes: "For years, concerned legislators have been urging repeal or revision of this archaic law."

The Utah lawmaker adds that his bill "seeks to restore the original intent of Congress, which was to preserve local working conditions and pay practices. Repeal of Davis-Bacon will

provide greater opportunity for small business and minority contractors and their employees to participate in federal work."

According to Robert P. Hunter, Sen. Hatch's legislative director, repeal of the act is the only practical solution. "We have little faith in any administrative changes through the Labor Department," he says.

"It's an old game for them to give just enough, but little of substance, to quiet things down. Aside from their political alliance with the unions, the Labor Department bureaucrats, like most others, don't want to do anything that would impair their empires."

In January, President Carter met with rebellious AFL-CIO President George Meany in what was considered a peace conference aimed at cooling the one-time plumber's ire at the administration's policies of fiscal conservatism. One of the olive branches extended by Mr. Carter was administration support against Davis-Bacon repeal or substantive amendment.

Stung by the conclusions of GAO's draft report, the AFL-CIO has accused the watchdog office of "lining up with antiunion contractors in a new attack on the Davis-Bacon Act."

### Labor's rebuttal

In a 56-page rebuttal to GAO, the Labor Department disagreed that Davis-Bacon is an anachronistic law geared to economic problems of the 1930s. It said that the statute has a much broader purpose which includes protection of the present living standards of construction workers, equality of opportunity for contractors, and prevention of disruptions in the local economy.

In a companion letter of support for Davis-Bacon, Labor Secretary Ray Marshall stated: "Repeal of the Davis-Bacon Act would undermine a basic legal protection of the wages of American workers in one of the largest, most economically unstable, and complex industries."

But the question remains: Is there any sense in not repealing a law that has outlived its purpose and is creating more problems than solutions?

Says David Shapiro, labor relations attorney for the Chamber of Commerce of the United States: "It's no secret that union construction workers are among the highest paid in America. Take away Davis-Bacon, and this will not change much. But take away Davis-Bacon, and all Americans will benefit."



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# Nobody Loves Mr. Carter's Budget

For fiscal 1980, the President holds the line on spending and vexes just about everybody



Major defenders of President Carter's \$532 billion budget are the triad of (left to right) Treasury Secretary W. Michael Blumenthal, OMB Director James T. McIntyre, and Charles L. Schultze, chairman of the Council of Economic Advisers.

**N**O ONE is really happy with the budget for fiscal 1980 proposed by President Carter, not even defense, which gains the most dollars.

The President calls his \$532-billion budget lean and austere, but he gets arguments on that description. Dr. Richard L. Leshner, president of the Chamber of Commerce of the United States, observes: "While we would not characterize it as lean and austere, it is a step in the right direction," with some reservations.

More scerbic is AFL-CIO President George Meany: "Austerity? I see it as a major attack on the living standards of average Americans, further widening the gap between the haves and have-nots. I see no reason why the have-nots should expect less, dream less, want less, or receive less."

Equally perturbed is Sen. Edward M. Kennedy (D-Mass.), who contends that the budget will undermine the nation's health care system.

"The dollars involved are relatively small," he says. "An amount equal to less than one half of one percent of the defense budget would restore these health programs to current levels."

The administration, says Sen. Richard S. Schweiker (R-Pa.), is playing one big shell game with Congress by proposing certain cutbacks in health programs, knowing that Congress will insist on larger outlays.

Dr. Leshner and business leaders generally approve of the budget's thrust and intent.

"We applaud the President's efforts to improve the nation's international trade and his promises to reduce government interference in the economy and make the federal bureaucracy more responsive," Dr. Leshner says.

## No incentives

However, the administration's economic program fails to provide additional incentives for capital investment by increasing depreciation allowances and ending double taxation of corporate dividends. Also, the budget increases funds for regulatory agencies, despite the President's avowed intention to cut regulation.

Keeping his promise to cut the deficit to \$29 billion, Mr. Carter held the line on many politically popular programs while enlarging the defense

budget. "I believe that we must firmly limit what the government taxes and spends," the President said in his budget message.

"We must set priorities carefully. We must change some old priorities and establish new ones. We must defer some of our demands if we are to meet today's critical needs."

Dr. Jack Carlson, vice president and chief economist of the National Chamber, contends that most of the austerity in the budget is for appearances only when viewed over the long term.

"The budget is modest, but it is certainly not tight," Dr. Carlson comments. "More importantly, the concentration on the 1980 spending totals is misleading."

"Some expenditures are being pushed back from 1980 into the current year. Others are being pushed ahead into 1981. We have a modest budget for only one of three years, and the trend is toward continuing, unacceptably high levels of spending."

The \$38.2 billion rise in government spending—7.7 percent over this year—would barely keep pace with the administration's budget assumptions for





Defense Secretary Harold Brown's forces got an increase that will touch off a bitter guns-or-butter debate in Congress.

inflation. The budget predicts that inflation, which rose nine percent last year, will increase by 7.4 percent in 1979 and by 6.3 percent in 1980.

#### Hands-off attitude

Congress is generally in tune with the austerity goals of the President's program. While it is unlikely that legislators will attempt to increase the budget deficit, there is some fear that they will attempt to restore funds for socially popular programs by cutting into defense spending. Dr. Carlson predicts a hands-off attitude toward the budget on the part of legislators.

"I think President Carter has made a strong case for his commitment to our NATO allies to beef up our defense capabilities," he says. "I do not think Congress will cut defense spending significantly to increase social programs. If social programs were to grow, it would be only through higher spending levels and a higher deficit."

The most sizable hidden increase in the budget is the money that will be allocated to government regulatory agencies. The National Chamber Forecast and Survey Center calculates an

overall nine percent increase in fiscal 1980. The increase, Dr. Leshner says, could wind up costing an additional \$5 billion for producing goods and services, resulting in an average \$77 loss in purchasing power for the American household. In fiscal 1979 and 1980, regulatory costs will have increased 33 percent.

#### Extremely sluggish

Last March and again in his budget message, the President pledged to hold down the cost of government regulation. "The good intention of the President as shown by an executive order last March to improve regulatory decision-making is more than offset by his budgetary increase in regulatory capability," says Dr. Carlson.

In formulating his budget, President Carter makes the assumption that while the economy will be extremely sluggish, there will be no recession. That assumption is contrary to the predictions of most economists who believe that the nation cannot avoid a recession within the next two years, given the present rate of inflation.

Alice M. Rivlin, director of the Congressional Budget Office, says the administration's forecast is too optimistic.

A CBO staff analysis of the budget shows revenues of \$499 billion instead of the administration's \$503 billion, outlays of \$540 billion compared to \$532 billion, and a deficit of almost \$41 billion, rather than \$29 billion.

According to Chase Econometrics Associates, Inc., a more realistic economic picture would mean a budget deficit of \$40 billion or more. Other private economists go as high as \$50 billion in their predictions.

#### Rose-colored glasses

More conservative economists say Mr. Carter is viewing the economy through rose-colored glasses, understating inflation and overstating real growth. They contend the administration is taking the most optimistic view possible of economic conditions in 1979-80 to show a high level of revenues, a relatively low level of inflation, and a deficit below \$30 billion.

The President's unemployment assumptions may prove the real Achilles heel of his entire budget program. Mr. Carter is predicting unemployment will edge up only slightly from year-

end's 5.8 percent level to 6.2 percent by the end of this year, and that that rate will be maintained through 1980.

Throughout the long recovery from the 1974 recession, business has absorbed new job seekers in unprecedented numbers. But the slower economy the President is predicting, even without a recession, could increase joblessness and severely upset the budget.

Not only would higher unemployment mean a cutback in the revenues Mr. Carter is anticipating, but workers' unemployment compensation, food stamps, and other benefits would mean increased federal spending.

House Budget Committee Chairman Robert N. Giaino (D-Conn.) predicts that a one percentage point rise in unemployment could add between \$16 billion and \$20 billion to the deficit.

Here are the highlights of the fiscal 1980 budget:

#### Defense

The defense budget for 1980 increases to \$122.7 billion from expected outlays of \$111.9 billion this fiscal year. The 9.7 percent increase represents a real spending gain of three percent in real terms, after adjusting for inflation. But naval experts contend more is needed to rebuild the fleets.

The bulk of the defense budget increases will bolster strategic forces to deter nuclear war and to boost the strength of U.S. forces in Europe assigned to NATO.

The increase will be the heart of the guns or butter controversy in the 96th Congress.

#### Energy

Outlays for the Department of Energy will remain about the same, rising to \$10.2 billion in fiscal 1980 from \$10.1 billion this year.

The big decisions on energy are still awaiting presidential action: The pace of decontrol of crude oil and possible windfall profits on crude oil; decontrol of gasoline prices, which had been scheduled for this spring; and possible legislation to authorize swapping of Alaskan oil.

Outlays will be cut for the strategic petroleum reserve program, research in nuclear fission, oil, natural gas, and coal. There will also be a cutback on demonstration of energy systems.

The budget reflects serious slippage in building the strategic petroleum re-





The loss of oil from Iran heightens the chance of a recession and trouble ahead for Energy Secretary James Schlesinger.

serve. Last year, the goal was to have 500 million barrels in storage by 1980 and one billion barrels by 1985. The new goal is 750 million barrels by 1985-86.

Solar energy research, energy conservation programs, and research for disposal of nuclear waste material received the increases. Solar energy will get the biggest infusion of new funds—a 25 percent increase to \$644.4 million. Spending for nuclear fusion research will rise to \$512.3 million from \$475 million this fiscal year.

### Health

The federal government pays for about 28 percent of the nation's health care, primarily through Medicare and Medicaid. Funds for this function will go up 8.75 percent, which is faster than the overall budget and the administration's general inflation assumption but not as fast as hospital care costs have been rising. Mr. Carter again proposes hospital cost containment legislation, and the budget assumes \$1.7 billion savings in 1980. Additional cost savings totaling \$1 billion are built into the budget.

The government has already imposed a 9.7 percent limit on increases for hospital costs under its voluntary wage and price guidelines. The guideline would become mandatory if costs rose any higher than that under the proposed legislation.

Assuming hospital costs can be held in check, the government would save \$7.9 billion by 1984. The bulk of these

savings would be in the Medicare health aid to the elderly program although total outlays for this program would still rise ten percent in the upcoming fiscal year.

### Community Development

Urban assistance is a big net loser in the fiscal 1980 budget, largely because a number of projects that aimed at helping cities recover from the 1974 recession have expired. But the proposed Urban Development Bank, one of the few remaining proposals of Mr. Carter's sweeping urban plan announced last year, has a good chance of becoming a reality. This agency would aid businesses in economically depressed areas.

Funding for community and regional development programs will drop to \$7.28 billion from \$9.06 billion in the current fiscal year. Funding for state and local governments will drop slightly, to \$8.81 billion in fiscal 1980 from \$8.93 billion. The administration has not yet decided whether it will renew the popular \$6.86 billion general revenue sharing program.

The new Urban Development Bank proposal calls for \$8.5 billion for interest subsidies, loan guarantees, and grants for businesses in declining areas. A number of legislators has introduced similar proposals.

The Department of Housing and Urban Development's budget is slated to rise to \$10.6 billion from \$8.96 billion. Most of the increase is for rent subsidies for low income families. The budget would also release \$2 billion to the Government National Mortgage Association to help purchase 16,700 middle income housing units in distressed urban neighborhoods and 50,000 units of housing that is rent subsidized.

### Training and Employment

The budget for the Comprehensive Employment and Training Act places increased reliance on the private sector, reducing funds for public jobs by 11 percent, youth jobs programs by five percent, and increasing private sector initiative programs, which pay employers to train CETA enrollees. The administration expects greater use of targeted tax credits for employers who hire CETA enrollees.

While CETA funds would be cut, the government will have more than \$400 million to reimburse employers for training the hard-core unemployed to provide them with jobs.

Another program would give as much as \$600 million in tax credits to

business for hiring from such target groups as Vietnam veterans and welfare recipients.

The government's 1980 spending for public service would drop from \$10.3 billion this fiscal year to \$9.6 billion in fiscal 1980. Most of the decrease would be in the countercyclical parts of jobs programs, and job levels would decline by 158,000 to 200,000 jobs by the end of 1980.

The government anticipates a \$2 billion increase in unemployment compensation outlays next year. Spending for 1980 will climb to \$12.4 billion from \$10.3 billion in 1979, largely as the result of increases in coverage, higher wages on which the payments are based, and the expected slight rise in unemployment.

### Income Security

President Carter proposes a series of social security benefits reductions which would save \$800 million in 1980, more in later years. Ways and Means Chairman Al Ullman (D-Oregon) has already expressed opposition to taking up those proposals this year.

The President has proposed program cuts including payments to college age children and the lump sum death benefit. This would save \$501 million in fiscal 1980 and \$3.6 billion in fiscal 1981.

The budget contains no proposals to spur growth of private pensions to encourage savings for retirement. Welfare reform will be proposed, to be phased in starting in fiscal 1981. In what may be a step in this direction, HEW and OMB will head a task force to simplify welfare eligibility.

Despite the cuts Mr. Carter is proposing for the social security program, the government's cost of retirement, survivors, and disability benefits will rise 13 percent to \$115.2 billion in the coming fiscal year.

Mandatory cost of living increases in social security benefits are also a part of the budget projections. The increases are expected to be 9.1 percent this June and 7.1 percent in June, 1980, swelling outlays by \$17 billion in the next two years.

### Transportation

The administration plans a large cutback in assistance for the railroads, while increasing spending for federal highway, mass transit, and air traffic control programs. Regulatory reform plans along with a phased plan to reduce federal subsidies is expected to cut federal outlays to railroads from



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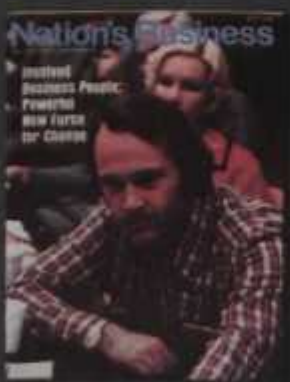


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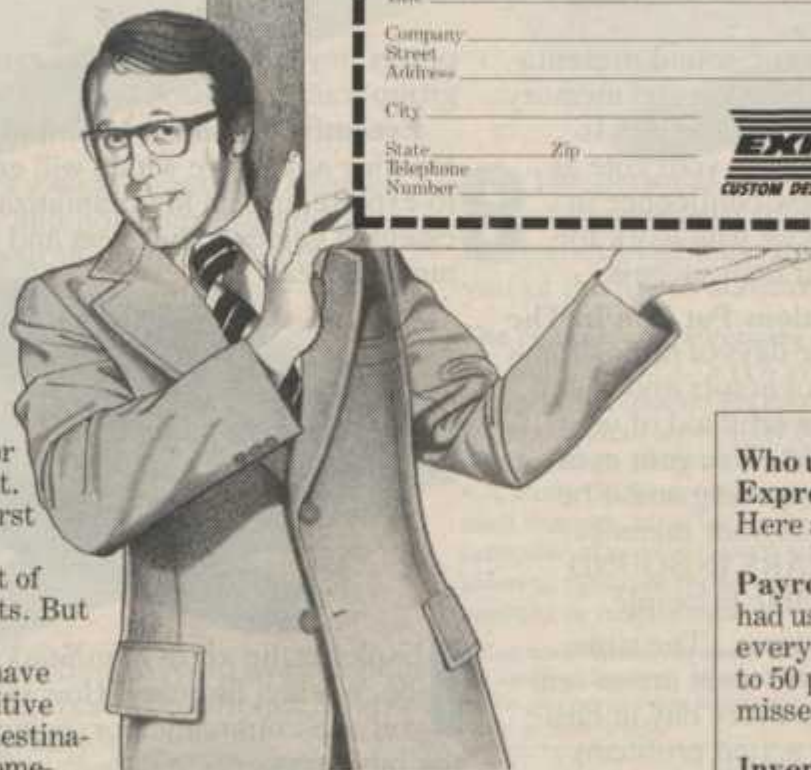
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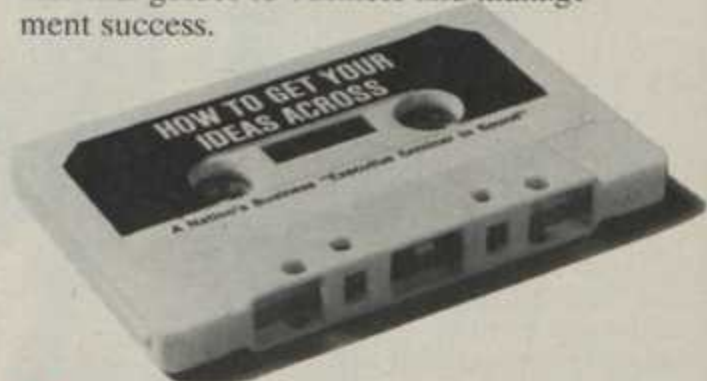
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\$2.4 billion in fiscal 1979 to \$1.7 billion in fiscal 1980.

Major emphasis is being given to reforming regulations affecting railroads, buses, and trucking. Detailed proposals are scheduled during the next few months.

The administration hopes that, by cutting back on Interstate Commerce Commission regulation of the nation's railroads, the system will be able to raise rates and cut money-losing services.

All new obligations to Conrail will halt in 1980 after a final \$1.41 billion in aid this year. Another program, under which the federal government buys preferred stock in ailing railroad systems will be replaced by a scaled down five-year plan.

The budget would also cut the operating subsidy for Amtrak to \$552 million from this year's \$600 million.

Funds for highway construction would rise to \$8.6 billion, an eight percent increase. The budget would increase mass transit programs by nine percent to \$2.46 billion and the Federal Aviation Administration's air traffic control operations by four percent to \$2.08 billion.

Despite the President's description of airline deregulation as the start of a major dismantling of the federal bureaucracy, the budget indicates no reduction in the staff of the Civil Aeronautics Board, and none is forecast for three to four years.

The U. S. Travel Service is one agency which the budget would eliminate.

Maritime Administration's subsidies for construction and operating differentials would have an 11 percent increase.

## **Agriculture**

The budget for agriculture shows one of the largest reductions of any function—31 percent, or \$2 billion. This reflects the customarily optimistic assumptions about farm crop yields and world supply and demand. Actual spending will be determined by crop yields.

The budget reflects cuts in outlays for acreage set-aside programs for major crops, dropping to \$4.3 billion in fiscal 1980 from \$6.2 billion this year. This cut will offset reductions in short-term export credit outlays.

Outlays for price support and related programs are reduced to \$2.6 billion from \$5 billion in the current fiscal year. Should production be higher than is estimated, outlays will rise, adding to the budget deficit.

Federal Crop Insurance Corporation payments are estimated to rise to \$98 million in fiscal 1980 from \$85 million this year. The increase reflects an administration proposal to replace disaster aid programs with insurance programs as a means of financial protection from natural disaster.

## **International Affairs**

The budget reflects the expectation of rapid growth in U. S. trade by supporting an 11 percent increase in Export-Import loan commitments and a 17 percent increase in its guarantee and insurance commitments.

The Export-Import Bank's direct loans are expected to increase significantly, from \$700 million in 1977 and \$2.9 billion in 1978 to \$3.8 billion in 1979 and \$4.2 billion in 1980.

Outlays for all international affairs will rise \$900 million in fiscal 1980 to \$8.2 billion. Of this, \$5.5 billion will be for foreign economic and financial assistance, an increase of \$220 million.

For multilateral development banks, such as the World Bank, funding will rise from \$900 million to \$1 billion.

## **Resources and Environment**

The budget for water projects, the object of a Carter hit list in an earlier budget, is not expected to stir major controversy. The budget proposes the start of 26 new projects with an average cost to complete of \$22 million. Work would also be resumed on Lock and Dam 26 on the Mississippi.

Pollution control outlays will increase 13 percent to \$4.75 billion in fiscal 1980. Environmental Protection Agency grants to municipal treatment sewage facilities will increase by \$500 million to \$3.6 billion in the upcoming fiscal year.

The EPA will send proposed legislation to Capitol Hill soon to allow it to streamline its methods for awarding and funding the grants. It wants to give more management responsibility to the states.

The EPA budget has \$2.6 million in new monies slated for the regulatory council formed to halt duplication in federal regulations.

## **Education**

The education budget rises 5.5 percent for fiscal 1980 to \$11.6 billion from \$11 billion in the current fiscal year. A good portion of the rise will go for programs approved by Congress last year but which did not require funding until fiscal 1980.

Aid to elementary and secondary

school programs Congress expanded in 1978 will increase 9.4 percent to \$6.3 billion for the fiscal year.

The administration wants to cut the impact aid program by 35 percent to \$528 million. This program gives extra funding to schools attended by the children of certain federal employees.

## **Science and Technology**

The budget shows a strong commitment to basic research. Funding for basic research will reach \$4.6 billion in fiscal 1980, a nine percent increase over fiscal 1979.

The National Science Foundation will get \$856 million in the next fiscal year, up 11 percent.

The civilian space program will continue development and production of the space shuttle and development of an advanced earth resources satellite. Funding for the three space missions now planned will rise from \$3.9 billion this year to \$4.1 billion in fiscal 1980.

## **Construction**

The budget allotment for construction is \$26.4 billion, a reduction of 2.4 percent.

The budget reflects the administration's decision neither to amend nor repeal the Davis-Bacon Act or the Service Contract Act which force artificially high wages on federally financed construction projects and other work. Excess costs from these acts are more than \$700 million annually.

## **Justice**

An increase of 17 percent in the number of U. S. attorneys and support staff is coupled with potential Justice Department plans to shift more litigation work to other federal agencies. Law enforcement assistance grants to local government are reduced by eight percent, but easing restrictions on the use of the funds will improve efficiency. The budget slows down the stepped-up border-enforcement plans announced earlier.

## **Reorganization**

In addition to an Education Department, the President is considering a major reorganization to change Interior into a Department of Natural Resources (add Forest Service and National Oceanic and Atmospheric Administration) and to coordinate economic development activities (affecting Commerce and Housing and Urban Development departments).

These moves would also be unlikely to please everybody. □



# "Economics for Young Americans"

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Here are a few of the things people are saying about this economic education program developed by the Chamber of Commerce of the United States in connection with teaching professionals:

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*"Educators report back on what a fantastic program 'Economics for Young Americans' is. When you are dealing with 27 different school districts, representing both rural and urban areas, it is even more interesting to see how universal this acceptance is."*

**Tom Hopkins**, Florida Power & Light Company

### APPLETON, WISCONSIN

*"The response is tremendous. The schools really want this different new economic program."*

**Ruth Ann Heeter**, Fox Cities Chamber of Commerce

### CAPE CHARLES, VIRGINIA

*"I have been using Phase I of the program and have found it to be very successful in trying to present these concepts to the classes. I find Phase II to be as effective a teaching aid as Phase I. It is certainly a well-planned, well-developed follow-up to the first phase."*

**Mary G. Rea**, Cape Charles High School

The goal in developing these kits was to make basic economics more interesting and relevant . . . and that's just what is happening with the kits in the classroom. Filmstrips, cassette recordings, printed scripts, and lesson plans are all part of the program. Phase I explains Profits, Productivity, Money, and Business/Ecology, while Phase II targets in on Paychecks, Pricing, Business Competition, and Savings. Teachers can use either without the other, but together they provide a more comprehensive economic overview. If your area still doesn't have "Economics for Young Americans," here is your opportunity to help young citizens learn more about the way our competitive enterprise system works. Why not order today?

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# CHEMICALS & PLASTICS: The Catalysts of Living

By Michael Thoryn

Nation's Business  
**INDUSTRY  
SPECIAL  
REPORT**



**T**HE \$140 BILLION chemical industry, immense but little understood, has discovered a disturbing fact: It isn't well liked.

John W. Hanley, president of the Monsanto Co., says: "The United States is suffering from an advanced case of chemophobia, an almost irrational fear of the products of chemistry."

is a combination of carbon, oxygen, and hydrogen.

From the time cavemen struck a spark to light a fire, people have been using chemistry. Some chemical compounds have come by accident, as castoffs from alchemy's attempts to turn base metals to gold. Vastly more compounds have been developed from careful observa-

• Synthetic fibers are specially designed to meet warmth, fashion, and workday needs.

• Pharmaceuticals such as aspirin and sulfa drugs are synthesized in the laboratory to ease and extend life.

• Plastic, the capstone of the petrochemical industry, is used in everything from spacecraft nosecones to garden mulch.

Strong, versatile plastics in auto grilles, dashboards, and body parts reduce weight and increase gasoline mileage. Interlaid in windshields, plastic prevents shattering and reduces injuries. And in housing, plastics are used in flooring, laminated surfaces, plumbing fixtures, pipe, and insulation.

The diverse chemical and plastics industry, with plants throughout the country, especially in Texas, Louisiana, California, New Jersey, and Michigan, also includes paints and coatings, soaps, cosmetics, and synthetic rubber products. Record chemical sales are forecast for 1979.

## Profits reinvested

Much of the profits in the chemical and plastics industry is reinvested. A recent survey by the Manufacturing Chemists Association, based in Washington, D. C., found that about \$7.8 billion will be spent on capital projects in 1979, a seven percent increase over 1978. About \$3.3 billion was spent on research and development in 1978, a ten percent rise from 1977.

The industry also weighs in on the positive side of the nation's balance of payments. In its 1979 *U.S. Industrial Outlook*, the Commerce Department notes that "for 1977, chemical exports were \$10.8 billion, imports were \$5.5 billion, for a record trade surplus of \$5.3 billion." That record should continue because industry analysts see China as a lucrative new market.

Despite these positive notes, the chemical industry is worried about government regulations that erode its ability



The chemical industry plays a crucial but unsung role in the nation's economy. This labyrinth of pipes, tanks, and odd-shaped structures at the Firestone plant in Orange, Texas, is typical of a petrochemical installation.

Much of the populace is worried about food and workplace safety, clean air and water, and, most of all, cancers thought to be by-products of chemical manufacturing. The industry, encompassing six percent of the gross national product and employing more than a million people, says the carcinogen danger is small and getting smaller. And the benefits from chemistry are enormous.

First, there is life itself. Every breath, drop of perspiration, or hunger pang involves a series of chemical reactions that are basic to life.

Tens of thousands of chemical compounds occur in nature. Water is a combination of hydrogen and oxygen. Sugar

tion, research, and much experimentation.

The small, mostly family-run chemical business came of age during World War I when firms were forced to develop complex dyes and medicines previously imported from Germany. Over the past 50 years, chemists and chemical engineers have built on their basic knowledge and created new products from air, water, salts, ores, petroleum, and natural gas. Today, there are new industries based on these products. For example:

• Chemical pesticides, a \$3 billion market in the United States, control weeds, fungi, insects, and other pests that destroy food crops.





Chemical pesticides, a \$3 billion annual business, help farmers increase crop yield per acre.

PHOTO: NATIONAL AGRICULTURAL CHEMICAL ASSOCIATION



PHOTO: DUNN-CORNING CHEMICALS CORP.

Detroit's quest for light, high-strength auto parts may lead to fiberglass reinforced wheels replacing the metal versions.



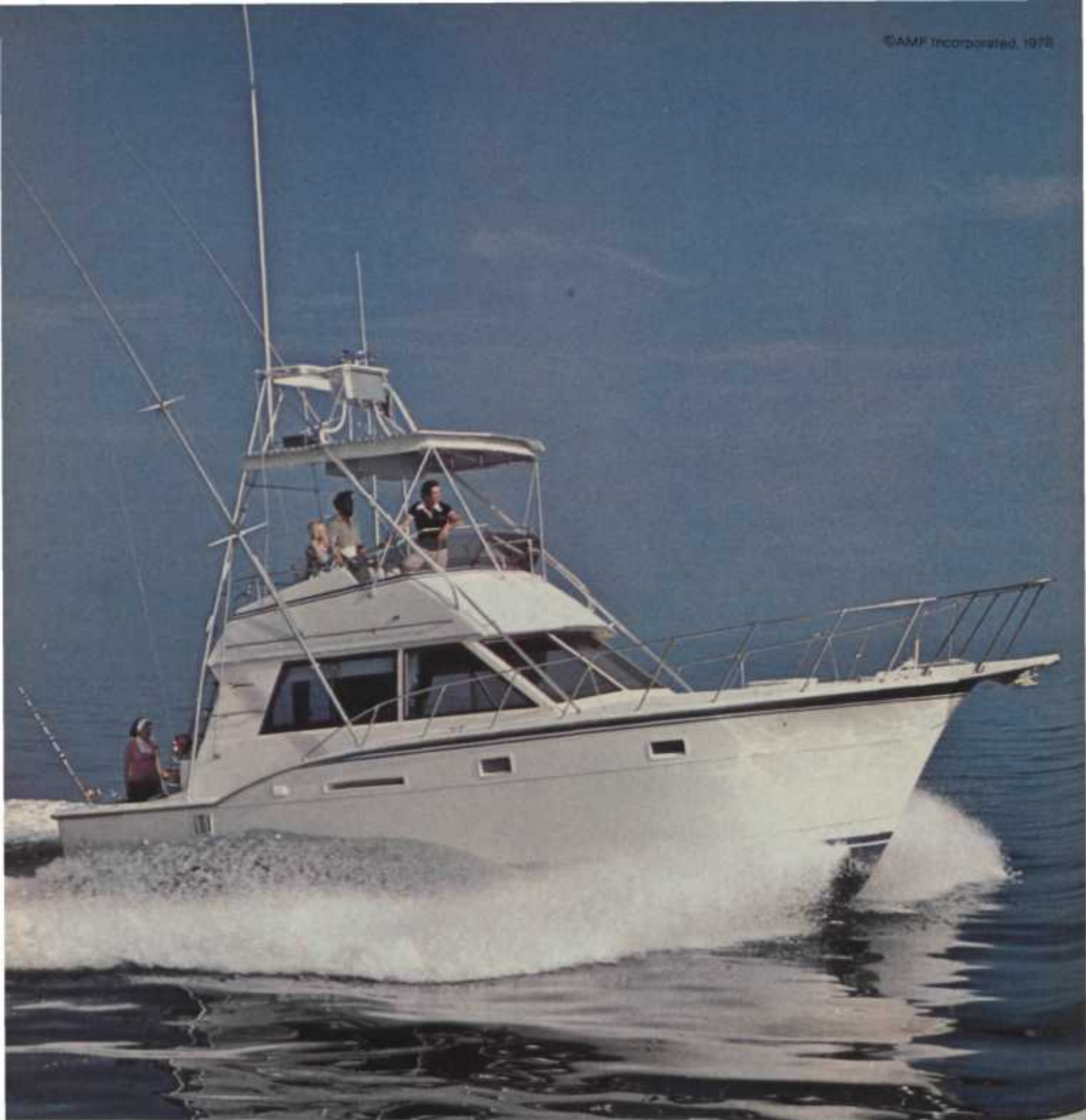
Corrosion-free plastic pipe made from PVC resin at the Conoco Chemicals Co. plant in Oklahoma City takes less energy to manufacture than an equal length of cast-iron pipe.



PHOTO: DU PONT

Huge sums have been spent by the chemical industry on water quality research. Salt water becomes fresh water when thin membranes filter up to 98.5 percent of the salts.





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to compete in the glutted world market.

A comprehensive series of laws limiting chemical exposure in the environment, workplace, and marketplace—the Federal Insecticide, Fungicide, and Rodenticide Act, the Clean Air Act, and the Federal Water Pollution Control Act, for example—were capped by the Toxic Substances Control Act of 1976.

Since the early 1970s, regulations stemming from such acts have forced specialty and basic chemical firms to cut back on the introduction of new products because of the cost of mandatory testing and the uncertainty of government approval. Many companies, large and small, report that the cost of compliance with regulations from the Environmental Protection Agency, the Occupational Safety and Health Administration, the Consumer Product Safety Commission, and others has doubled in the past two years.

### Trying to save lives

Simply put, the goal of the regulators is to save lives. Steven D. Jellinek, assistant administrator for toxic substances at EPA, told a chemical industry group: "Science cannot prove beyond doubt the connection between cancer in humans and cancer in animals used in toxicological studies.

"Yet we are responsible for protecting the public from carcinogens. We can't wait for proof-positive in the form of dead bodies."

Mr. Hanley of Monsanto argues that potential risks must be balanced against known benefits. The proposed ban on saccharin—because cancer turned up in rats fed massive doses of the synthetic sweetener—must be weighed against the fact that saccharin helps overweight people to reduce, the Monsanto president says. "Life expectancy for those who lose weight would increase 100 times more than the risk of cancer would decrease it," he says.

### The processing stream

Chemical products turn up almost everywhere. However, the public is unaware of much of the activity because the products nearly always require further processing before ultimately reaching the consumer. For example, the biggest customer of Dow Chemical Co., a specialist in basic chemicals, is DuPont.

The Commerce Department describes a typically complex processing stream this way: "Benzene is combined with propylene to make cumene, which by a catalytic reaction with oxygen is made into phenol and acetone. Acetone is a

solvent and a raw material for methacrylic resins that are made into plastic products." And phenol is a basic ingredient in making nylon yarn for clothes, carpets, and other textiles.

Such processing, done at huge multi-million-dollar installations, adds value to the materials used. One dollar of petroleum feedstock can result in \$5 of plastic products, \$10 in fibers, and up to \$100 in agricultural chemicals, photographic chemicals, or other intricate products.

### Standard shelf goods

Some of the best known chemical products are major industries in their own right.

The paint and coatings industry had sales of about \$5 billion in 1977, split almost equally between industrial finishes and standard shelf goods for builders and do-it-yourself types.

Since cars are getting smaller, the \$10 billion U. S. tire industry downsized many of the 248 million tires it sold in 1978.

The highly competitive, image-conscious cosmetic, toiletry, and fragrance industry reported 1978 sales of about \$9 billion.

Plastic has become a basic material—on a par with metal, glass, wood, and

paper. As a result, the traditional view that steel is for cars, aluminum is for planes, and plastic is for toys is fading.

The 35 billion pounds of plastics produced in 1978, with a sales value of \$11.3 billion, found use in almost every major market.

Yet, plastics trace their origin in the United States only to 1868 and a full-time printer, part-time inventor named John Wesley Hyatt. He came up with Celluloid, a mixture of cotton, nitric acid, and camphor, as an entry in a competition to replace scarce ivory in the manufacture of billiard balls.

Today, 40 different kinds of plastics are made through chemical reactions which link individual molecules of compounds, called monomers, to form long chains of molecules with constantly repeating patterns, called polymers.

Depending on the monomer, the way the molecules are linked, and the chemical process used in their manufacture, plastics can have a wide variety of physical characteristics. Some, like DuPont's Kelvar, are as strong as steel; others are expandable foams.

Despite its versatility and success, the chemical industry is boiling over the cost of government regulation.

Industry executives point to the EPA



## The Smothering of Invention

If innovation had stopped ten years ago, we'd be without small computers, home smoke detectors, wide-body jets, and synthetic heart valves.

Even with those developments and others more esoteric, U. S. innovation during the past decade has lagged.

Dr. Frank Press, science adviser to President Carter, says regulation is a major inhibiting force. "The argument is that compliance is generally very costly and draws off company talent and resources that could be devoted to developing new products.

"In response, however, there is already much government effort to prune regulations, simplify requirements and reporting, and coordinate the regulations of the agencies to eliminate overlapping and conflicting elements," he says.

Certainly, the chemical industry is committed to innovation—company-sponsored research and development topped \$3.3 billion in 1978—but an increasing proportion was spent on defensive research to meet regulatory requirements.

And R & D spending "is lower in constant dollars than it was a decade ago," says Richard E. Heckert, senior vice president of DuPont. "It is also lower as a percentage of gross national product. If there is an innovation gap, it is not because of slippage in research quality, but because the incentives to develop inventions have diminished," he says.

A good illustration of slowing innovation is the pharmaceutical industry. While breakthroughs still occur, a pharmaceutical company may wait one to four years for approval of a new drug application by the Food and Drug Administration.

Since it also takes several years and millions of dollars to develop a modern drug, half the 17-year patent life may be gone before the product reaches the marketplace.

In fact, drug approval in the United States lags so far behind other countries that domestic firms have established manufacturing units abroad, in part to maintain their foreign sales. That's practical innovation.



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**BUILT TO STAY TOUGH**



as the leading perpetrator of costly and unreasonable requirements to clean the air and water, dispose of wastes, and prove the safety of products new and old. However, EPA Administrator Douglas M. Costle tries to be evenhanded.

He told a group of manufacturing chemists in Washington: "It could be said that the first regulatory agency was constituted under King James I of England to oversee the draining of swamps and marshes. I suppose an unscrupulous pundit could suggest we've been stuck in a quagmire ever since. . . .

### Crucial issue

"Some people still argue whether or not regulation is necessary," he continued. "Frankly, I do not believe this is the crucial issue. The real debate should focus on regulatory methods, effectiveness, and costs."

Mr. Costle says air and water are getting cleaner—the reappearance of fish and waterfowl in once-contaminated rivers and lakes is proof. However, he concedes that regulations "are sometimes duplicative and unnecessarily burdensome in their application."

The greatest new burden comes from the Toxic Substances Control Act, under which chemical companies have been required to compile a comprehensive list of chemicals they currently produce, to bear the complete cost of testing chemicals for toxicity, and to give EPA 90 days' notice of the proposed manufacture of new chemicals that may have some health or safety significance.

EPA can ban the new chemical if the risk of its use is unreasonable or test information is lacking.

### Not fully considered

Tatiana Roodkowsky, a specialist on the impact of the act for the Chamber of Commerce of the United States, says: "Sometimes, EPA is so eager to carry out its duty that it fails to consider fully the scientific and economic feasibility of a proposed regulation."

"Because complete toxicity testing of a chemical substance can cost more than \$300,000 and require two or more years, research and development of new substances, however beneficial they might be, is already suffering."

And because 85 percent of chemical companies are considered small businesses, Ms. Roodkowsky says, they may have problems coping with this new economic burden.

Another area where regulators and the chemical industry are at odds is the extent of work-related cancers.

About 370,000 people died from the

disease last year. Joseph A. Califano, Secretary of Health, Education, and Welfare, says, "at least 20 percent of all cancers in the United States—and perhaps more—may be work-related."

Robert A. Roland, president of the manufacturing chemists, says the percentage is much lower: "Occupational exposure causes only one to five percent of cancer cases." Most of the rest, he says, are caused by tobacco smoking, dietary habits, and sunlight.

Part of the difference between the two estimates stems from the subtle amounts of carcinogens scientists are able to detect. A few years ago parts per

million was the standard; today parts per billion can be measured.

OSHA has decided that since no safe exposure level has been determined, cancer dangers must be brought to the lowest feasible level.

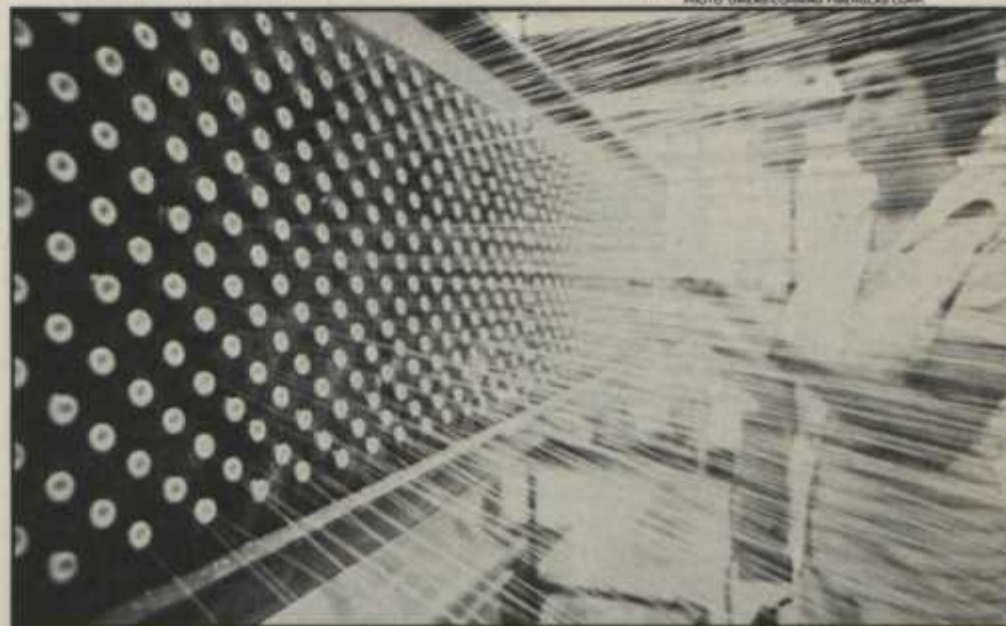
The Labor Department agency has drawn up a list of 269 potential carcinogens, among them benzene, lead, and arsenic, with a recommended level of worker protection for each.

Irving Gaines, chairman of the Chemical Specialties Manufacturers Association, protests this generic standard, to be formally announced this spring.

"There is no standard for the quality of



Most synthetic rubber goes into tires, hose, and belting. Fresh from the mold at Firestone's plant in Normal, Ill., this 2.5-ton tire is used on huge mining trucks.



Custom-designed synthetic fibers can be woven into rugs, clothing, or tire cord. Owens-Corning controls the processing of these fibers by computer.





tests," he says, "or how they should be conducted. There is no way to reclassify chemicals on the basis of new findings, no consideration of relative risks and benefits, no safe threshold for potential carcinogens." Compliance could cost as much as \$11 billion, he estimates.

### Health dangers

A reasonable solution to this bubbling dispute is difficult, but some people are trying.

Jackson B. Browning, corporate director of health, safety, and environmental affairs at Union Carbide Corp., says: "Public opinion polling tells us people

are deeply concerned about health dangers they perceive in the chemical field. At the same time, the public falls short of demanding severe or mindless regulation of chemicals. What the public wants are fuller information about suspected health risks and adequate protection from proven substantial hazards. We believe they are entitled to both."

One area where the chemical industry and the government are bonded together is energy conservation.

Mr. Roland of the manufacturing chemists says most of the industry, which uses more energy than any other manufacturing group, has already ex-

ceeded the 1980 voluntary target set by the government.

Modifications of existing processes, such as Union Carbide's innovative way of making low-density polyethylene with a quarter of the energy of other methods, are the key to the industry's use of 17.4 percent less fuel per unit of output than in 1972, he says.

### Conservation critical

Saving energy is crucial because the chief building blocks of plastics and synthetic fibers are increasingly costly natural gas and crude oil.

Because of their more secure sources of oil, major petroleum companies have strengthened their already large chemical operations.

Within a decade, all U. S. firms may have to strain to compete with the oil-rich OPEC nations if they decide to produce chemical feedstocks rather than simply export petroleum.

However, Ralph Landau, chairman of Halcon International, thinks infrastructure, transportation, and marketing problems may hinder Middle East competition.

Looking toward 2000, Mr. Landau predicts new chemical units will group around large gasification plants with gasified coal, carbon monoxide, hydrogen, and biomass as possible feedstocks.

### Embryonic efforts

A syndicated cartoon recently depicted two women at lunch, one confiding to the other: "I'm ready to give up. Everything you eat these days is either fattening or makes mice ill."

Consumer anxieties may disappear in the future if the embryonic efforts of industry, government, labor, interest groups, and academia to cooperate succeed in ending the confrontations of the present risk-benefit argument.

Mr. Hanley of Monsanto says cooperation is urgent. "The present system of determining product safety is having disastrous consequences—for industry, certainly, but for everyone else as well. Public issues affecting the health, safety, and livelihood of millions of Americans are being decided on the basis of emotionalism more than anything else."

Mr. Roland, who is also a director of the National Chamber, adds: "The chemical industry, those people who manufacture chemicals, didn't invent chemistry, and they didn't invent chemicals. Everything in life is chemical." □

PHOTO: OWENS-CORNING FIBERGLAS CORP.



The demand for better insulation to combat the soaring cost of energy has led to record sales for manufacturers of fiberglass and plastic foams. The sheathing for this new home has a foam core sandwiched between reflective aluminum foil.

## Regulation Is No Solution

The Dow Chemical Co. of Midland, Mich., pays about \$50,000 a year to find out how much regulations from more than 80 federal agencies cost the firm.

In 1975, the figure was \$147 million, and \$50 million of that was classified as wasteful or excessive. For 1976, the figures were \$186 million—more than half of Dow's after-tax income—\$69 million excessive. Items such as an extra cooling tower and reduction of leaks to one part per million fell in the excessive category.

Joe Bevirt, project manager for the cost of government studies, says:

"Regulatory proliferation continues at a fantastic rate."

He projects a rise of more than 44 percent in 1977 for a regulatory bill topping \$268 million. "We must discard the unattainable zero-risk concept. We must have simple regulations using readable thousand-word vocabularies. And we need fewer lawyers in the regulatory process."

Dow's president, Paul F. Oreffice, sums it up. "These regulatory costs represent one company in one industry. Think what the costs are for all U. S. industry. Ultimately, the consumer ends up paying these costs."



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## Fingerprint System Spoils Check Fraud

Oscar Pieper wants to put a fingerprint on every check. That way, he says, banks, supermarkets, and retail stores could reduce their losses from fraud by up to 90 percent.

The claim is no wildly optimistic guesstimate. The system of identification that Mr. Pieper markets has proved its worth in about 5,000 bank branches throughout the country.

"Robbery with a pen accounts for most of a bank's cash losses," says Mr. Pieper, president of Identicator Corp., in San Bruno, Calif. "The serious criminal knows that the possibility of getting caught is much less with a pen than with a gun."

The odds narrow considerably if the criminal check casher runs into the Touch Signature system. This consists of a doorknob-shaped object that imprints two small ovals on the back of a check. The customer touches one oval with his forefinger, then touches the other. No mess, no hassle, and no waiting for positive identification.

"The most aggravating thing," says Mr. Pieper, "is the time it takes to get approval of a check or credit card sale. You have to prove who you are."

Signatures and driver's licenses prove nothing, according to Mr. Pieper, because the former can be forged easily and phony versions of the latter are readily available at affordable prices. "The fingerprint is a very personal thing," says Mr. Pieper, "only ten to a customer. In all of history, there have never been two fingerprints alike."

Oscar Pieper and daughter Susan, 19.



Mr. Pieper had an image problem in selling his identification system to the banks. Everybody knows that only criminals get fingerprinted, not law-abiding citizens. Like many myths of public perception, this one foundered on truth. Most of the people in surveys conducted for Mr. Pieper were willing to be fingerprinted if that would deter criminal fraud.

In fact, deterrence is the basis of Mr. Pieper's success, not the number of criminals the system has caught. Nothing happens to the check with the customer's fingerprint on it. No record is kept. But, if the check is worthless, or if the customer can show he did not write it, the check is handed over to the police department as evidence. No intelligent criminal is going to leave such a calling card behind.

The secret of the system is its simplicity and lack of mess. "The ink has a glycerin base," says Mr. Pieper. "There is nothing to wipe off. In fact, the base is the same one used in hand creams, so actually, it's good for a person to use." Unless, of course, the person is a fraud.

## The Power of Persuasive Positioning

Warren Hirsh is not an easy man to persuade. Ask the Japanese. They spent several months cajoling Mr. Hirsh into running their apparel company, which had lost money eight years in a row.

Mr. Hirsh was a vice president for the Ship 'n Shore Co. He covered the Southeast and Southwest from Atlanta. "I was in charge of one third of the country," says Mr. Hirsh, "but I was stymied. I couldn't get the other two thirds."

Along came Murjani USA, Ltd. "My first reaction to the company was: What's a Murjani?" says Mr. Hirsh. "My second reaction was: Who needs to go back to the New York City jungle?"

Murjani was not exactly famous for its fashions. The company made clothes for other firms' brand names. "Their own brand names were meaningless," says Mr. Hirsh. "They had no marketing position, their volume was nothing. The company had lost money every year, \$6.5 million in all."

Mr. Hirsh was brought up in Brooklyn in an area where almost everybody had



Warren Hirsh... friendly persuader.

something to do with the apparel business, whether in the cutting room or pushing a cart on the street. "Down South," says Mr. Hirsh, "I was a big fish in a little pond. There is a certain excitement about the challenge of New York, because in the garment industry, that is where the giants are. The more I thought about it, the more I wanted to try it."

He signed up with Murjani, and then along came Gloria Vanderbilt. "I was looking for a name that would mean something in this country, a personality who could portray an image to the public," says Mr. Hirsh. "This is the day of the designer name, and I wanted a name, but an American name."

Mr. Hirsh already had a market for the name. His idea was to introduce a designer blouse in the \$32 to \$40 price range. Right place, right name, right time, says Mr. Hirsh. In 1976, Gloria Vanderbilt blouses were projected at \$5 million. They sold \$7 million. Last year, that figure was close to \$11 million.

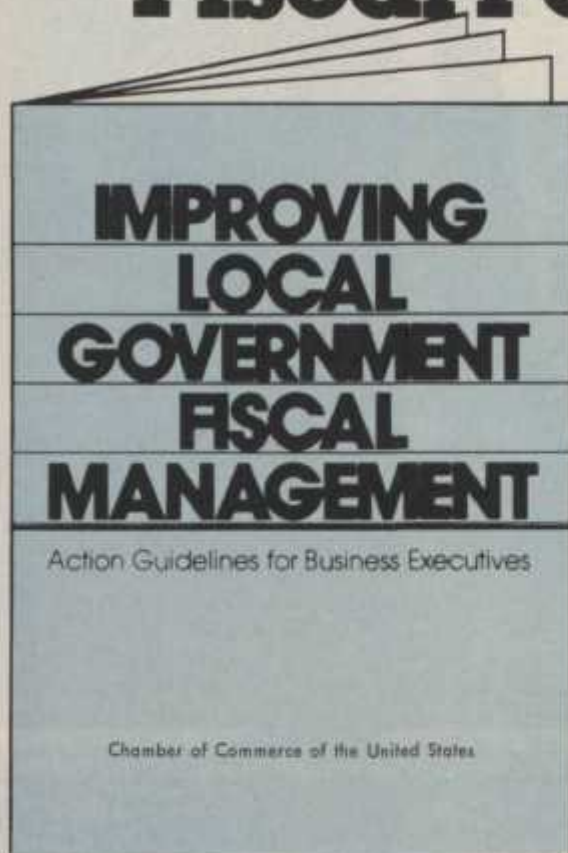
The Vanderbilt look also was stamped on jeans, which sold \$30 million last year. Sales of both lines are projected at \$65 million this year.

"I think the average apparel company depends on how strong its line is every season," says Mr. Hirsh. "Do they have a hot blouse, a hot jacket? Without question the product has got to be good, but every company can make a good product. To be successful consistently, you have to build a marketing position, and to do that you have to advertise continually. Gloria is in every one of our ads. We will spend \$3 million this year on advertising her name."

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# Business Life-Style

PHOTO: ROBERT WOODEN—LEHMAN



Steve Maniatty bundles up against the cold to paint the Allen House in Deerfield, Mass.

PHOTO: JAY ZEE—LEHMAN



Her Washington, D. C., backyard is a studio for former IBM consultant Toni Greenwood.


PHOTO: LAWRENCE HEDGES—GALANTE



Art classes are a popular way for many beginners to learn the basic techniques.







## PAINTING:

# Different Strokes for Different Folks

By John Costello

**S**OMETIMES, in the dead of night, Kenneth W. Fitch will steal out of bed, slip on a bathrobe, and head for the spare room in his tenth-floor apartment.

The view is hard to beat.

His high-rise is on the New Jersey side of the Hudson River Palisades. From there, you can see Manhattan's skyscrapers towering more than a thousand feet, their lighted windows like jewels in the black, velvety darkness.

But Mr. Fitch isn't up to sightsee.

The spare room is his studio. When he gets there, he switches on the light, spreads a paper drop cloth, sets up an easel, mixes some oil colors, and begins to paint.

It's a long-standing hobby.

"That's one of the things I like about painting," he says.

"Sometimes, when I'm a little uptight or the pressures are getting to me, I get up in the middle of the night and take out my brushes. As I paint, I begin to relax.

"Then my subconscious starts working out the answer to my problem. All of a sudden, I get a different approach, and the problem's solved.

"It's amazing. It has happened so many times."

**M**R. FITCH is export manager at Schiavone-Bonomo Corp. in Jersey City. The firm deals in scrap metal. He often spends time at the docks, making sure the ship he has chartered is properly loaded.

He gets a lot more out of painting than problem-solving. "I always had an urge in that direction," he says. "But I never did anything about it until I met a friend who was a professional muralist.

"I used to go over to his studio on Sunday mornings and watch him work. I was impressed with what beautiful things you could do with just the swish, swish, swish of a brush. I thought it would be a beautiful way to express myself."

He bought some oil paints and took some instruction

from his friend. That was nine years ago. He has been painting ever since. He's also a member of New York City's Salmagundi Club, the oldest professional art club in America.

"But only as a lay member," he says, "not as a professional artist. I'm not that good. I'm a Sunday hacker."

**V**ISIT A GOLF COURSE on a sunny spring weekend. A mere glance shows golfers galore. Or go to a marina when the forsythia is in bloom, and the dogwoods, cherry trees, redbud, azaleas, and tulips have begun to shout: "Spring is here!"

You can't help noticing.

There are scads of sailors.

Something else is going on that you may have missed. They don't make much of a public splash, but toiling away is a teeming underground of acrylic artists, oil painters, and watercolorists—all busy at their drawing boards and easels.

About 33 million Americans, one out of seven, profess to draw, paint, or sculpt, *American Artist* magazine reports. Ten million say those are their primary leisure activities.

The statistics come from a survey made by the National Committee for Cultural Resources, which is hardly the sort of an organization you would suspect of padding the figures.

What do these Americans spend?

The National Art Materials Trade Association says the art materials market is close to \$1 billion a year.

"It's been growing at the rate of 16 to 22 percent for the past six years," says Howard L. Landstrom, executive director.

SRI International supports that dollar estimate. An SRI report published in 1977, based on data collected earlier, says the art materials market is \$500 million to \$750 million a year retail. More than half, however, rep-



resents commercial sales. It may take talent to paint for a hobby, but it doesn't take a bulging bankroll.

"You can get a starter set of oils for \$15 to \$40," says an art dealer in Washington, D. C.

"Acrylics are about the same. For watercolors, a starter set may run from as little as \$2.15 to \$20."

**P**AT BARNES has to make time to paint. It's a ritual she goes through at the beginning of each month.

"I work for a real estate agency in Crofton, Md.," she says. "I get a schedule every month that tells me when I have to be at the office, covering the phones. Usually, those are three-hour shifts, and I block them out on my calendar."

"Then I allow time at home for correspondence, telephone calls to clients, and other sales work and planning."

Then there is time set aside for domestic chores and the care of her husband and two children.

All that does not leave much time for painting watercolors, but she manages to squeeze in quite a lot.

"I try to paint three or four times a week," she says, "three to five hours at a session."

**O**F ALL the hobbies and skills, painting may be one of the oldest.

Strangely enough, before he was much of anything, man could paint, often exquisitely.

Deep in the caves of France and Spain, men of the Ice Age depicted the deer and bison they hunted. Their skills, mastery of form and color, and originality would be the envy of many artists today.

Phoebe Beasley believes that the talent is in the bones or genes.

An account executive for KFI radio in Los Angeles, Ms. Beasley is an art major from Ohio University.

At an early age, she realized she had the aptitude.

"People would ask me to draw a picture of something, and it was easy for me. I could draw better than anyone I knew, and the people I knew were my whole world."

"So I thought," she says with a laugh, "that I could draw better than anyone in the world. Later, I learned a lot of people could draw."

"My whole world was shattered. That's when I started going to art classes."

Now, she often exhibits her oil paintings and collages and has had her own one-woman show. Her first public suc-



The ultimate challenge for the landscape artist is the actual scene.

cess, however, came at John Adams High School in Cleveland, Ohio.

"This friend of mine," she says, "was taking Latin. All the classes in the school had to do a different special project. Kids in her Latin class had to do a drawing."

"She said to me: 'Do me a favor and draw the Last Supper for me.'"

"I said okay. It was no problem. I had a picture of the Last Supper I could copy."

"What she didn't tell me was that she was entering the drawing in a contest for the Latin class."

"A few days later, the school assembled for the announcement of the winners of the classroom competitions. There were about 2,000 of us seated in the auditorium."

"Who shows up on the stage, winner of a \$10 first prize, but my friend, holding my picture. There I was, sitting there, and I couldn't say a word."

Did she say anything later?

"Yes," she replies. "As soon as we got out of the auditorium, I said: 'Okay, let me have the \$10.'"

**W**HEN DON A. TAYLOR was very young, the doctors said he wouldn't live to be six. "I had weak lungs," he explains.

So his father gave up 18 years of seniority with the Indianapolis Power & Light Co. and moved the family to Arizona.

There Don Taylor soon found health, and he acquired a hobby—that has led to a prosperous business career.

Like many who paint for a hobby, he's self-taught.

"In Arizona," he says, "my dad traveled a lot. At night, it was lonely in those little towns where we lived. And there was no television."

"So my mother and I began to draw. She would sit on one side of the table, and I'd sit on the other. We would copy pictures from magazines. Later, she bought me some watercolors."

"We weren't rich, and watercolors were cheaper than oil paints."

On weekends, they often took trips in the family car.

"My dad drove, and I'd sit in back doing pastels of the Arizona scenery."

Today, he says, he can still paint cactus from memory.

His hobby led to a job in a picture-framing shop. Later, he bought it.

Now he's president of Taylor's Art Center, Inc., and Nor-Cal Moulding Corp. in Sacramento, Calif. He was the first president of the Professional Picture Framers Association and is president-elect of the National Art Materials Trade Association.

What draws people to the easel and sketch book?

"With me," says Mr. Taylor, "it's impulse."

"If I feel I've just had it with certain things, like business, I'll wander up to the room where I have a studio and paint. It gives me a chance to express myself."

"And I like doing something—a painting—no one else has ever done."

Every painting is, of course, unique. It also lasts, bringing immortality to both subject and artist.

In the 1620s, Peter Paul Rubens drew a tender, affectionate portrait of



# What's Right with America?



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his little boy, Nicholas. Father and son are long gone, but the boy, angelic, innocent, still lives on canvas. The pride and love of the father who painted him are immortal, too, glowing from every line that details the child's face.

The fact that their work lasts is not lost on hobbyists.

"That's one of the things I like about painting," says Pat Barnes. "I'd like to leave a body of art behind me. Something permanent that says who I was."

**W**ILLIAM A. SCHULLER understands that feeling.

He got into painting by way of model railroads.

"I had tracks all around the basement of the house," Mr. Schuller says, "even running around the furnace."

"I needed some backdrops for it, scenery and some buildings, so I learned to paint them. Then, my brother-in-law, who had just returned from a trip out West, decided he liked the idea of painting."

"So he said to me: 'Why don't we go to the local high school and take one of those adult painting courses for two bucks?'"

"So we did."

Mr. Schuller describes himself as a realist painter.

"I'm particularly interested in painting locomotives, probably because of model railroading. Also, Chesapeake Bay skipjacks, snow scenes, old mills, buildings, and houses."

He has painted some things for his wife. One hangs in their living room.

For his taste, however, it's a little too frilly.

"She wants FLOWERS," he says, "and people sitting under umbrellas, and somebody serving them meals. You know, like a French scene."

A district manager of interoffice facilities planning for the Chesapeake & Potomac Telephone Co. of Maryland, Mr. Schuller paints a couple of nights a week.

He also skis at Killington, Vt., where he and his wife own a ski lodge. He likes skiing but, after a good run, the fun's over.

"But if you paint something well, you can take pleasure in it for a long time," he says.

"I hope these things I do will last for hundreds and hundreds of years."

Why?

"Well," he says, "there's no reason why they shouldn't."

Mr. Schuller paints only with oils.

"I'm a little scared of watercolors,"

he says. "With oils, if you make a mistake, you can paint over it and correct it. Once you put that watercolor down on paper, there's no way to change it."

**T**O IRVING M. AFFIAS, that's part of the challenge of painting.

He is president and owner of Tricon Electronics, Inc., in Manhattan, and a board member of the Sumi-E Society of America.

That society is a tight little band of aficionados of oriental brushwork.

"Brushwork," he explains, "is a little like painting with watercolors. But it may be even more difficult."

"Western watercolorists work on paper that has some sizing in it. Put paint on that paper, and the paint doesn't move. It stays where it is."

"But we work with black or colored inks on rice paper. It's absorbent, something like newsprint. If you put a wet brush down on rice paper, the ink bleeds out from the brush immediately."

"You have to know exactly what you want to do before the brush touches the paper. Hesitate and you make a blot."

Mr. Affias is an electrical engineer with a master's degree from the Polytechnic Institute of Brooklyn.

How did a boy from Brooklyn get into oriental brushwork?

"Well, I used to paint with oils, but I was dissatisfied with my progress. I had always liked Chinese porcelain and artifacts. So I was looking around to do some calligraphy in Japanese or Chinese style when I happened to see an ad in a paper for a school that taught it."

"I studied there for about ten years."

Like most painters, Mr. Affias works hard at his hobby.

"I paint three or four nights a week," he says, "sometimes weekends. I try to work up my proficiency to the point that I'm almost as good as a professional."

"Whether it's my business, or a hobby, I like to be good at what I do."

And he is. He exhibits often and has had several one-man shows.

Why painting instead of some other hobby?

"I don't know," he replies, "but I was always a good draftsman, because of my engineering background. And I was always very good at working with my hands."

**M**ORAL: Scratch a handyman, and you may find a budding Botticelli or a Sung master of the brush. □



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# Working in the 1980s: Less Unemployment, Fewer Opportunities

By Jules Backman

**T**HE PERSISTENTLY high unemployment level of the 1970s, due mainly to the increasing number of teenagers and women entering the work force, is expected to be reversed in the 1980s.

That process will have a profound impact on business generally, and on certain specific businesses.

The total labor force increased by 20 million from 1967 to 1977, reflecting the baby boom after World War II and the social phenomenon of the working woman.

The total civilian labor force will continue to expand in the 1980s, although at a slower rate. However, according to the Bureau of Labor Statistics, the numbers in the 16-19 and 20-24 age groups are expected to decline.

The postwar baby boom was responsible for the increase of workers in the 16-24 age group from 15.5 million in 1967 to 23.7 million in 1977. The 16-19 group increased from 6.5 million in 1967 to 9.3 million in 1977. This group accounted for about one quarter of the total unemployment in 1977.

## Going to college

The actual totals in the labor force in 1985 and 1990 will be affected largely by the proportion of young people going to college. Even if that number varies, the total number of younger people in the labor force will adversely affect businesses that cater to youth—a burgeoning market in the past two decades.

Between 1967 and 1978, the propor-

tion of women 16 years and older in the labor force increased from 41.2 to 50.1 percent. The 8.9 percent rise added seven million more women to the labor force in 1978.

This increase—mostly in the 25-34 age group—reflects changing family patterns and social attitudes, later marriages and fewer children, the increasing number of divorced or separated women who must support themselves and their families, and the rapid growth of industries which traditionally employ a substantial number of women.

## Slower rise for women

The rate of increase of women in the work force will probably not continue to rise as rapidly as in the past decade. If the rate slows significantly, pressures on employment will lessen through the 1980s.

What will be the effects of a smaller increase in the labor force and a change in its age mix? First, unemployment rates should fall moderately in the 1980s. Second, economic growth rates will decline, and the total number of job opportunities will grow more slowly. At the same time, however, the slower economic growth rate should hold down the rate of gain in productivity; fewer jobs will be eliminated.

The continuing growth of the service industries should contribute to lower average productivity gains because of the difficulty of applying capital equipment—except for the computer—to personal services. Nevertheless, growth in services should continue to provide proportionately more job opportunities than growth in other, higher productivity sectors of the economy.

While there will be relatively less

unemployment, the kinds of jobs available will present a problem. As the number of teenagers and unskilled workers declines, there will be a smaller pool of unskilled workers. The result will be significantly lower unemployment for that group.

Business may find a shortage of these workers rather than the present large surplus. Any shortage will increase the incentive to automate unskilled jobs. However, the need for unskilled workers may be filled by an increase in the number of aliens—legal and illegal—from Mexico, South America, and the Caribbean.

The 25-44 age group faces problems in the 1980s. The large increase in this category probably will outstrip the number of opportunities in middle management and technical fields, particularly in a period of slower growth.

## Unskilled former teens

However, the 25-44 category will include many of the teenagers of the mid-1970s. This group has had high unemployment, and many will not have acquired the experience to qualify for middle management jobs. In fact, many may be largely unskilled or semiskilled, thus relieving in part the prospective shortage of such workers. Nevertheless, there will still be a significant promotion problem.

The increase in retirement age enacted in 1978 will be a major manpower problem for business in the 1980s. It is still too early to determine how many workers who reach 65 years will want to continue to work until they are 70 and older.

A study by the Federal Reserve Bank of Boston says that by 1985 the total labor force will increase by only

DR. BACKMAN is research professor emeritus of economics at New York University.





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Consumer food prices alone in the eleven years rose to an index level of 192.2. Other consumer price changes were also higher than the increase in truck charges. Compared

with the 166.2, housing in 1977 was 189.6; medical care was 202.4 and fuel oil and coal were 283.4.

The men and women of today's trucking industry are concerned about inflation. They are working hard to control costs and economize while

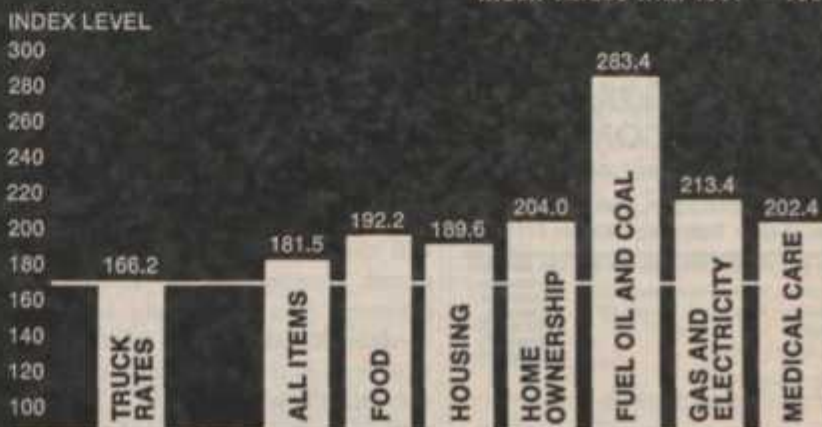
continuing to provide dependable motor carrier service.

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## Changes in Truck Rates\* as Compared to Changes in Various Consumer Items

1977 versus 1967

Index Values with 1967 = 100



\*As measured by revenue per ton mile for ICC regulated intercity common carriers of general freight.



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200,000 as a result of pushing the mandatory retirement age to 70 years. However, the increase may be larger as the pressure of price inflation intensifies the need for greater income for many in this group.

Unless different jobs are provided for middle as well as top managers after they reach 65, the pipeline of promotion opportunities will become clogged, and the problem of providing managerial opportunities for the 25-44 group will be considerably aggravated.

But this area of postmanagerial jobs is completely unfamiliar. In fact, it may be impossible legally to change job responsibilities for older workers. And to what types of jobs can foremen, supervisors, and corporate executives be shifted, if they can be shifted, and at what rates of pay?

### Disgruntled workers

Attempts made to demote older employees may lead to serious legal problems. And if changing responsibilities are mandated, many people will be disgruntled and unhappy, particularly those approaching 65. They will see the responsibilities of older workers downgraded. And companies will have difficulty in finding jobs which have any meaningful relationship to the experience of older workers.

What will be the impact on morale if executives or middle managers must ultimately report to workers who formerly were their subordinates? Younger workers will have a legitimate complaint if assignments to older employees preempt jobs to which they aspire.

Extended employment will also intensify the efforts to weed out at earlier ages those who do not perform adequately. But performance evaluation measures will have to be reviewed carefully to ensure that they can withstand legal challenges.

Clearly, management faces labor and morale problems stemming from the extension of the retirement age.

### Increasing competition

Changing trends in the labor supply will also affect affirmative action programs. Competition for middle management jobs is already increasing because of the pressure to make such jobs available to minority groups and women. These groups will be better trained in the 1980s and they will demand opportunities commensurate with their training.

One result may be a "strident backlash against programs for affirmative action" as Prof. Arnold Weber of Car-

negie-Mellon University has suggested. If so, business will be caught in the middle of the conflict. At a minimum, business probably will have more troublesome problems with affirmative action than in the past.

Another result of fewer promotional opportunities may be a greater interest on the part of highly motivated workers to go into business for themselves. This would increase the growth rate of small businesses and could limit or reverse the historic trend toward greater concentration of business in large corporations.

The increase in part-time employment has been facilitated by the rapid growth in service industries such as fast food chains, hospitals, hotels, insurance companies, and banks, all of which employ large numbers of women and offer variable working schedules.

Some states and cities have also begun programs to hire part-timers. Congress recently enacted legislation to require greater use of part-timers at the federal level.

The trend toward working part-time will probably spread to other industries as workers seek increasing flexibility in their schedules so that they can pursue other interests.

### Increasing labor costs

The prospective large growth in the 25-44 segment of the labor force may help to stem increasing labor costs. These costs have far surpassed gains in productivity. Between 1967 and 1977, unit labor costs increased by 79.7 percent in the nonfarm business sector of the economy. The increase was due to a combination of large wage increases, in part to compensate for inflation, and better fringe benefits.

Some attempts are being made to restrict the rise in fringe benefits and to reverse past increases, with only limited success so far. However, through the 1980s, benefits will become less liberal, and some may be sacrificed in return for wage increases.

Overall, while unemployment will lessen in the next decade, employee unrest will probably increase because of the effects of the demographic changes in the work force. An increasing number of older workers, inadequate opportunities for promotion, more pressure for affirmative action, and the demand for part-time, flexible working schedules will combine to intensify labor dissatisfaction.

Both management and labor will have to devise new approaches to employee problems of the 1980s. □



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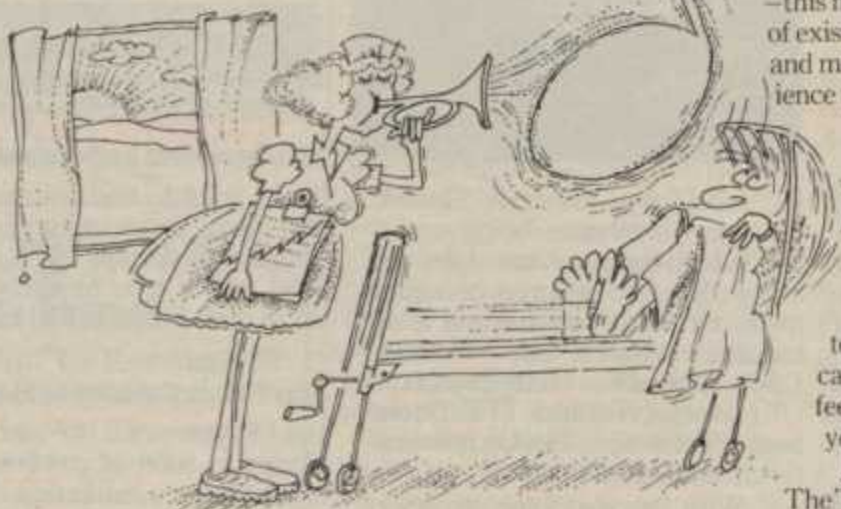
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## Device Warns Drivers of Low Tire Pressure



A mechanical valve that warns motorists of low tire pressure could be available on new cars by the 1981 model year.

**A**UTOMOBILES are about to take another leap forward in technology with a dash-mounted device that warns drivers of low tire pressure.

The device, called a low pressure indicator, could save many lives and cut personal and business losses. A government-sponsored study by Indiana University shows that 1.4 percent of all accidents result from low tire pressure. That adds up to nearly 250,000 accidents annually.

Government and private industry experts estimate that up to half of all cars have at least one tire underinflated. This is not only unsafe but also wastes gasoline.

The Highway Users Federation and the Tire Industry Safety Council estimate that if all tires were at the recommended pressure, 41 million barrels

of oil would be saved every year. A tire five pounds underinflated can lose one quarter of its service life.

The low pressure device, patented by the Safety Research and Engineering Corp., of Cambridge, Mass., may be on cars by the 1981 model year. The pneumatic mechanical valve senses a drop in tire pressure, uses one pound of pressure to generate an acoustical signal, then seals itself. A receiver under the chassis relays the signal to a warning buzzer or light on the dashboard to alert the driver.

The valve can be set at any desired pressure level. What makes this low pressure indicator different from several others in the prototype stage is that it works while the car is not in use. An electronic memory stores information and activates the dashboard signal when the ignition is turned on.

The system is the brainchild of William Barabino, the president of SREC. The company holds eight patents on the device, which has several applications. Goodyear Aerospace has the world rights to make, use, and sell the device for airplanes.

General Motors is negotiating with the company for the right to use the low pressure indicator system. The unit will cost about \$9 to \$12 to produce, depending on the capability of the dashboard display. This is expected to boost the retail price of the automobile by \$50 to \$60. Initially, the device will probably be standard equipment on top-of-the-line models in 1981.

The sophisticated low pressure indicator is part of the trend toward increased use of electronics in automobiles. A next step for the device is a plug-in module that will compute the speed of the tire leak and display a countdown of time remaining before the tire is too flat to drive on. •

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ket—look for worldwide shipments to increase steadily through 1979.

Best domestic sales improvements last year were turned in by power cranes, up 20 percent; earthmovers, up 18.9 percent; and bituminous coal mining equipment, up 9.1 percent.

Power cranes also lead the way in foreign sales, up 9.1 percent. Earthmovers were up six percent.

The Construction Industry Manufacturers Association believes that underdeveloped countries such as China are untapped markets for housing and highway construction equipment. •

## New Seismic System Eliminates Cables

Along the lines of building a better mousetrap, a Phillips Petroleum Co. subsidiary has developed a more portable system for recording seismic signals used in oil, gas, and mineral exploration.

In conventional seismic exploration, long cables up to five miles long connect microphones that detect earth movement to a central recording point. Dynamite is detonated, the recording is done, and the cables are disconnected, gathered up, and restrung.

The system developed by Applied Automation, Inc., does away with cables, using radio telemetry instead. The 39-pound remote telemetry units are battery-powered. Microphones must still be connected to them, but the long cables back to the recording point are eliminated.

A spokesman for Applied Automation says that the lack of cables will reduce downtime required to haul in cables or move the central recording station in conventional systems. He says it can cost \$500 an hour to keep a small seismic crew in the field in the U. S., and five to eight times that much overseas. •

## Coal Industry Predicts Record Tonnage in 1979

The coal industry predicts that 713 million tons will be mined in 1979.

That's a record, says Carl E. Bagge, president of the National Coal Association. "We expect continued growth in coal production in the years ahead as the nation shifts to coal for its energy supply."

The coal industry has the backing of the federal government. A letter to the association from Energy Secretary

James R. Schlesinger says: "Let me re-emphasize that the administration has never veered, and is not now veering, from its commitment to coal and to other alternative, abundant domestic sources of energy."

Even more important than federal policy statements are expansion plans by the electric utilities, the coal industry's largest customers. Utilities, which use 75 percent of the supply, plan to construct 255 new coal-fired generating units between 1978 and 1987.

"Those new units will use about 440 million tons of coal a year," says Mr. Bagge.

Electric utilities used 481 million tons in 1978 and are expected to increase coal use by six percent in 1979.

Meanwhile, the balance of trade in coal has become a matter of concern to the National Coal Association, which points out that exports of coal in 1978 dropped to the lowest level since 1962. At the same time, imports of coal and coke increased sharply.

Mr. Bagge predicts that imports of steam coal will rise to about four million tons in 1979, up from three million in 1978 and 1.8 million in 1977. Imports of coke for steel-making will

reach about six million tons in 1979, up from five million tons in 1978 and 1.8 million tons in 1977. •

## Home Appliance Industry Expects Strong Sales

Home appliance manufacturers expect Americans to buy more than 33 million new major household appliances in 1979—about the same number purchased last year.

"The industry's challenge," says Guenther Baumgart, president of the Association of Home Appliance Manufacturers, "is to beat the record shipment level of 35,850,000 major appliances in 1973."

Mr. Baumgart says that two factors brighten the short-term outlook:

- The relatively large number of appliances sold from ten to 20 years ago are becoming prime prospects for replacement. Shipments totaled 24.2 million units in 1968, 15.7 million in 1963, and 13.6 million in 1958.

- There are still many good prospects for first-time appliance purchases. More than half of all U.S. families do not now own dishwashers,

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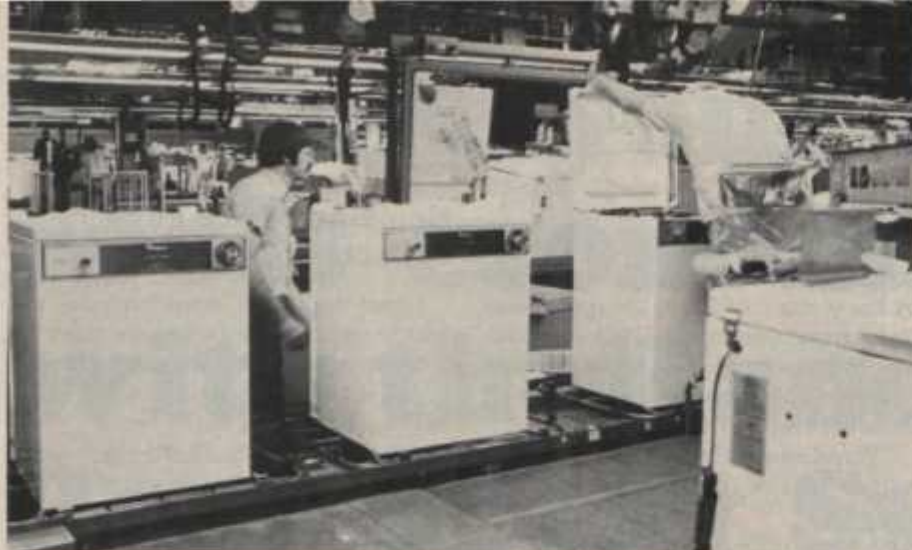
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Compact Whirlpool washers receive a final inspection before being shipped. The number of major new appliances purchased this year could total 33 million.

disposals, clothes dryers or home freezers. Less than ten percent have microwave ovens or trash compactors.

A recent study done by the National Association of Home Builders shows that more than half of new home buyers purchase new kitchen appliances rather than bringing them from their old homes. In 1978, 73.27 percent of new home buyers bought stoves and 66.3 percent bought refrigerators. •

## Fiberglass Production Will Meet New Demands

Despite recent fiberglass insulation supply shortages, "we are confident that current and projected capacity will supply the demand in 1979," says Robert G. Breniff, manager of Owens-Corning Fiberglas Corp. residential construction marketing division.

"Owens-Corning studies indicate that by next year the average new home will have more than 985 pounds of insulation, an almost 100 percent increase from just 12 years ago," he says.

Transportation and pollution control equipment manufacturers are also using more fiberglass as a principal part of composite materials that weigh less than metals and resist corrosion better.

Owens-Corning says use of composites in transportation equipment accounted for 535 million pounds in 1978. •

## New Computer Device Understands Accents

It may not be long before you can talk directly to a computer, even if it has never heard your voice before, thanks to a major breakthrough by researchers at Bell Telephone Labs.

Systems now in use for security and banking can recognize only voice patterns for which they have been programmed. But Bell's new system can comprehend most American regional accents and some foreign ones. It is also able to understand a large number of people it has never heard before.

Bell researchers have refined the system to provide directory assistance as an experimental application. A caller spells out the first five letters of the last name and then the initials. The computer then compares every spoken word with 12 reference patterns for each item in its vocabulary. Researchers say the new system is just as accurate as systems trained to recognize specific speakers, but a little slower. It takes about five seconds to recognize each letter. Although the experiment demonstrates the feasibility of such a system, a spokesman for Bell Labs says: "It's still very much in the experimental stages." •

## Soda Pop Generation Takes Over the World

Despite the flaps over saccharin and disposable containers, the per capita consumption of soft drinks in the United States far exceeds that of any other beverage and is growing rapidly around the world.

According to David L. Babson & Co., Inc., a Boston-based investment counseling firm, the consumption of soft drinks has increased by about five percent every year since 1970, including 1974-75 when sugar shortages caused soft drink prices to soar by 45 percent. With five percent of the population, the United States consumes 40 percent of soft drinks worldwide.

The increasing popularity, the firm

says, reflects the change in life-style toward more dining out and more outdoor activities. Consumption has defied a trend affecting other businesses—the declining number of children and teenagers, traditionally the heaviest consumers.

In addition to increased annual consumption in the United States—about 38 gallons per capita—the foreign market is growing at six to seven percent. Already, Coca-Cola and PepsiCo, the two largest manufacturers of soft drinks, have franchises in China and Russia, respectively.

While the industry expects that expansion will continue at its present rate, most manufacturers are developing a line of diet sodas using other than saccharin additives. •

## Geothermal Search Under Way in East

The first phase of exploration for new sources of geothermal energy in the East will begin later this month. According to the Department of Energy, there may be enough energy trapped in granite formations beneath the earth's surface to provide home and industrial heating for much of the East.

DOE believes that granite formations absorb heat from naturally decaying radioactive materials. That heat is trapped in a mile-thick, water-saturated strata of sand and clay over the granite. The water temperature is 185 degrees Fahrenheit, not hot enough for electric generation, but hot enough to heat homes, industrial plants, and buildings, and for use in agriculture.

"Until now," says a DOE spokesman, "it was thought that geothermal energy was limited to the western and southern parts of the country, making it a limited resource. But now we find that hot water from below the earth's surface can be used to supply the energy needs of the industrial and heavily populated East."

DOE learned of this possibility from Prof. John Costain of Virginia Polytechnic Institute and State University. The Energy Department agreed to fund Prof. Costain's work. Two 5,000-foot wells will be drilled near Crisfield, Md., in the center of the Delmarva peninsula, at an estimated cost of \$750,000.

Drilling will be done by Gruy Federal, Inc., Houston, under a \$75,000 contract. DOE says several other sites between New Jersey and Georgia show similar signs of geothermal gradients. □



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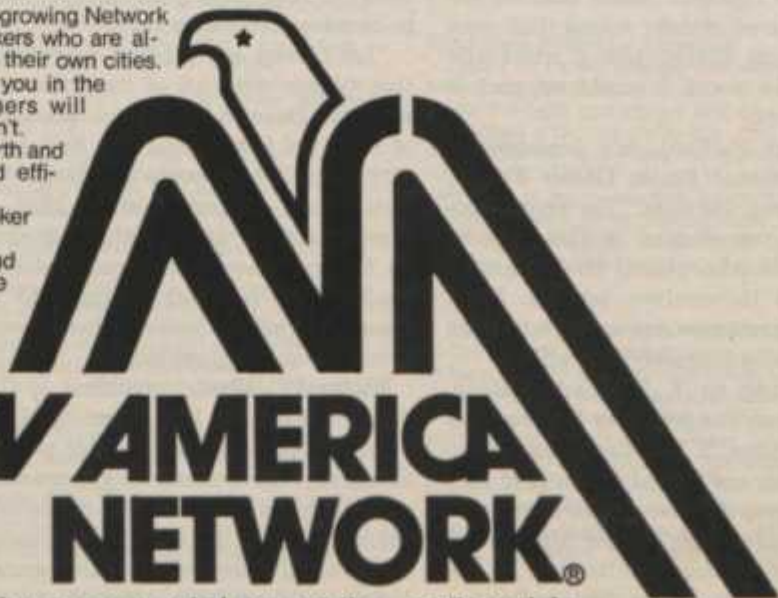
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## Let the People Decide the Laws

**T**HE ISSUE IS really as old as the battle between the Jeffersonians and the Federalists. Is the United States a republic or a democracy? Do we or don't we subscribe to a strong centralized federal government? The debate has been going on for two centuries. The most recent discussion centers on a national initiative.

Advocates say it would allow voters' voices to be heard in Washington. They see it as a way to keep the members of Congress in tune with the true will of the people, not just the wishes of the loudest lobbyists.

Opponents contend that a national initiative could shake the very foundation of the American system of government. They say that the average voter is not adequately equipped to solve the complex social and economic problems. They predict a paralyzed legislative process.

In January, "Sound Off to the Editor" asked "Should voters enact federal laws directly?" By a margin of three to one, the readers who responded answered yes.


"This is the only way the American people are going to recover control of this country," says George E. Darrow, president of Oklahoma Appraisal Co., Inc., Oklahoma City, Okla. "We need to tell our representatives that we are sick and tired of their voting their own beliefs and disregarding what the home folks want. I would support it 100 percent."

J. Frank Stafford, vice president of First National Bank, Green Forest, Ark., agrees. He says: "For years, people were represented in Congress by individuals who placed their country first and themselves second. Now, most congressmen are more intent on perpetuating themselves in office."

According to T. J. Vander Meer, president of Vander Meer Enterprises, Inc., Yankton, S. D., "the Panama Canal treaties are a good example of how the Congress does not listen to the will of the people." Mr. Vander Meer voted in favor of a national initiative.

"Nay," says Leroy McCardia, account executive at Management Re-

### The Only Way to a National Consensus



By occupation, Robert D. Linder is a professor of history at Kansas State University. By election, he is mayor of Manhattan, Kansas. His interest in

changes in current governmental processes is both personal and professional.

He explain why he favors a national initiative:

"America is now so diverse in terms of culture, so pluralistic in terms of religion, and so polarized in terms of politics, that this is the only way a national consensus can be reached on any given major issue. Agree beforehand to abide by the will of the majority; then define the issue, debate it, and vote on it.

"How else can we run this multicultural mess in anything like a responsible and democratic manner?"

*DR. LINDER has served on the city council of Manhattan for eight years. This is his second term as mayor.*

cruiters, Inc., Greenville, S. C. "Rather, let them have the authority by petition to force a vote to recall a congressman or senator who has not voted in their best interests. We need to avoid a pure democracy."

"Let's keep our elected representative system with all of its problems," suggests Dean R. Williams, president of the Turf Equipment Co., Salt Lake City, Utah. He opposes a national initiative and suggests instead that all representatives and senators be elected for one six-year term so that they could study legislation and vote responsibly rather than constantly worrying about being reelected.

Richard C. Reedy, president of Corde Engineering, Inc., Everett, Mass., would disagree. He says: "Our present form of representative government was designed to meet the needs of a colonial society in which communication was difficult and education spotty. Voters are now able, through greatly improved educational standards and

almost instantaneous communication to make decisions directly."

That same opinion is expressed by George P. Gallagher, executive vice president of the Association of Drilled Shaft Contractors, Inc., Dallas, Texas. "Americans today are better informed about all facets of national, regional, and local affairs. The media supplies all the information that Mr. and Mrs. Average American need to make a sound decision. I have always believed that the larger the body of voters you activate in decision-making, the better the decision."

"Widespread apathy is this country's greatest detriment," contends C. H. Britton III, of Britton's, Inc., McAllen, Texas. He feels that a national initiative would rekindle popular interest in government. "Better a national initiative," he says, "than zero initiative."

Jack Lehman, sales representative for Dayton Blue Print Co., Dayton, Ohio, favors a national initiative and



# How to Profit From Our Continuing Inflation in Real Estate

Isn't it about time you personally took steps to cope with inflation and use it to **create** wealth for you instead of standing by helplessly while it drains your paycheck?

by Mark O. Haroldsen

## Specifically What You Can Do

I'm not going to bore you with a lot of words or claims to sell you something. I want you to know right away, something you can do to profit substantially from inflation.

It's so basic and easy to do, that many investment analysts and professional consultants overlook it. It is simply this: Go out and buy a second house. It's really quite simple to do.

You're probably thinking, "What do you mean, buy a second house? I'm having enough trouble hanging on to the one I have!" I'll show you exactly how it's done and how you can do it, as I have done it many, many times, even if you don't have any extra money. People like you, are doing it every day.

## Why A Second House?

If you own a home now, you already know what inflation is doing for you. Buying a second house is one of the best ways you can profit from inflation. Why? Because of the tremendous advantages of owning property. It not only rapidly and dramatically increases your net worth because of inflation, but it produces extra income as well while actually decreasing the amount of income taxes you pay on your regular income.

## Do It Now

I strongly recommend you buy at least one extra home or income property immediately, so inflation can begin to act upon the property. Get a renter to do all of the following for you: make the payments, pay the interest, taxes, insurance, and the upkeep. By increasing the rent, you'll even have money left over each month. This is usually tax-free extra income each month.

## What Inflation Will Do For You

Last year houses went up in value by more than 12% on the national average.

When you buy that property with the lowest down payment possible, that 12% increase can actually increase your wealth by 40 to 50% per year, and even as high as 100%. I'm not throwing these numbers around wildly, I know what I'm talking about, because I've done it! My success in doing this, along with the accomplishments of many others, has been reported and written up in many of the country's leading newspapers and magazines.

## What If Inflation Stops?

If you'll really think about it, inflation is a built-in part of our economy. It's been with us a long time and always will be. The rate of inflation is what politicians and business leaders are trying to control. Why not concentrate on making inflation, whatever the rate, your friend instead of your foe?

## Step-By-Step

I have written down my formula that is based on my own experience, in a volume called "How to Wake Up the Financial Genius Inside You." This volume is concise, easy to read, and will show you step-by-step how to do the following:

- How to buy income properties for very little or no money down
- How you can easily start in your spare time
- Why there are still bargains to be bought today
- How to find a bargain, and if you can't find one, how you can negotiate one
- How a young couple can easily buy their first and second home
- Put cash in your pocket each time you buy (without selling any property)
- Double your profits every year
- Get huge profits out of run-down properties
- The key to financing properties without going to regular lending institutions
- Legally avoid State and Federal Income Taxes, almost indefinitely
- Turn a mortgage into a tax shelter

You see, I can show you all this and show you specifically step-by-step how to do everything I've talked about, because I have actually done it all myself.

And more importantly, I am practicing what I am preaching to you this very day.

## Many Others Have Done It

Let me make one thing very clear. I am not the only person that has made a fortune doing what I'm talking to you about. You probably know many people within your own town, maybe even in your own family, who are rich because of real estate.

Here are comments from a few people from around the country that have followed my formula:

- "Your materials cost me \$19.50. From their contents I will receive a net profit within the next 18 months of about \$125,000."  
— Gary Weaver, San Gabriel, Calif.
- "I am 27 years old, married, with one son. We have wanted a nice home for several years, but we never could seem to get out of debt, much less save up a down payment on a new house. The very day I got your book, I read it from cover to cover. Later that afternoon, I used an idea I got from your book to buy the house we had been wanting. It is a beautiful house, complete with a heated pool and all the works. The idea was so simple that I couldn't believe how well it worked. . . I firmly believe that in a few years, I too will be worth at least \$1,000,000."  
— Emmett G. Godfrey, Bessemer, Alabama
- "As a result of just looking around and talking to realtors I found my first house (a roughly divided duplex) at a bargain. The owner was willing to finance about 85% at 8% interest. Before I could even close I had several people call wanting to rent. I have a good positive cash flow (about \$80 over the note) and am looking for other properties and ways to finance. I suppose I knew it was possible to make this type of investment, I even had a vague idea about the tax advantages. But I just didn't realize how easy it could be until I read your book."  
— Michael E. Burford, Mississippi

If you're like most people, you're probably skeptical, especially when I'm going to ask you to make a check out for \$10.00 (\$9.50 less than Gary Weaver paid) and send it to me and receive your own copy of "How to Wake Up the Financial Genius Inside You". I really don't blame you for your skepticism, because of the many people in



Mark O. Haroldsen spent four years perfecting a "wealth formula" that harnesses runaway inflation and became a millionaire in the process. More than 300,000 people have discovered how his method can lead them to total Financial Freedom.

this world trying to deceive others.

## It's Guaranteed

I hope to overcome your skepticism by guaranteeing that you'll be satisfied that the \$10.00 you'll spend will give you a complete game-plan and the knowledge you need to overcome the effects of inflation, and put it to work for you, instead of against you.

## To Back Up This Guarantee

To back up this satisfaction guarantee, I would like you to postdate your check and circle the postdate. I will not be able to cash or deposit your check until you have had (for at least those 30 days) a chance to look at the material I sent you. If for any reason you are not satisfied with my material, send it back and I will promptly return your own uncashed check or money order.

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FIRST — I know anyone who wants to be financially independent today, **can be** if they follow the right game-plan, and I have developed a proven game-plan that has worked for me and many thousands of others. SECONDLY — I will live to the letter and spirit of my guarantee, so don't lose by procrastinating. Do something today. Start by ordering my material. Begin NOW to "capitalize" on inflation instead of being hurt by it.

If you send your order to me within 30 days of the date of this publication, I will also include additional material showing you how you can borrow from \$20,000 to \$200,000 at 2% above prime rate, using just your signature as collateral. To order "HOW TO WAKE UP THE FINANCIAL GENIUS INSIDE YOU", send \$10.00, check or money order to me, Mark O. Haroldsen, Inc. Dept. G-466, Market Place Park, 2612 South 1030 West, Salt Lake City, Utah 84119.



says it would be especially effective in amending the Constitution. "If proposed amendments were submitted to the electorate at the first presidential election following passage by Congress, approval by state legislatures could be eliminated."

"National initiative would bring Congress back to reality," says Harold Engelman, vice president of National Life Insurance Co., Montpelier, Vt. "Perhaps we could again balance the budget," he suggests.

No to voter-enacted legislation, says W. G. Henderson, purchasing agent for the county of Riverside, Riverside, Calif. "I am directly affected by Proposition 13 which was written hastily and enacted by an emotional campaign that did not give the voters any real idea of the long-range consequences." He warns that "demagogues would inflame many television watchers who do not have the inclination to study the pros and cons of any complex legislation affecting the country."

Ralph Ludke, president of Ludke Electric Co., Inc., Vicksburg, Miss., sees no need for a national initiative. "The basic form of our government is for Congress to write, the President to

execute, and the courts to adjudicate our laws. The system is good," he says. What we need to do, according to Mr. Ludke, is curtail the abuses of excess power exercised by lobbying groups, bureaucrats, and unions.

"The Founding Fathers started this country as a republic, not a democracy," asserts David A. Williams, legislative assistant to Representative Phil Gramm (D-Texas), Washington, D.C. "They knew," he says, "that by giving the voters direct access to lawmaking, it would eventually produce mobocracy and tyranny, the same that has occurred in other great civilizations."

"A national initiative presupposes a trust that common sense is capable of penetrating propaganda," according to Greg Zerovnik, president of Management Dynamics, Los Angeles, Calif. "On the whole," he says, "more opportunity for people to run their own lives is better than less."

Donald G. Ehr, vice president of Hinshaw's Dept. Stores, Inc., Whittier, Calif., agrees with the need for a national initiative. "I realize that voters are not always well informed, but I will take their collective opinions to the mess we have now."

"Give the public a break! Not all of us are indifferent!" says Richard Ayers, minister of the United Methodist Church, Weatherford, Okla.

"We do feel out of touch with the Washington people. The national initiative would help the people of our country feel more important, and they would get involved."

Curt Carlson, president of Film-sound, Inc., Collegedale, Tenn., thinks that perhaps representative government is no longer necessary, that some electronic form of coded direct access is possible. He contends that it would do a great deal to reestablish the role of the people in government.

Carrying the idea of nationwide electronic voting one step further, one reader who favored a national initiative proposed the following plan:

"With today's sophisticated communications system, why not develop a telephone dial-a-vote system?" asks Dr. John R. Johnson of Saratoga, Wyo. "On important issues involving everyone, we could dial our social security numbers, followed by a yes or no."

He suggests that this method could also be used for elections. "What a savings for taxpayers," he says. □

CHAMBER OF COMMERCE OF THE UNITED STATES

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# U.S. CHAMBER OF COMMERCE • APRIL 29-MAY 1 • WASHINGTON D.C.

# 67th ANNUAL MEETING



## PROGRAM

### SUNDAY, APRIL 29

8:00 a.m.	<b>REGISTRATION DESK OPEN</b>	Washington Hilton Hotel
6:00 p.m.	(All tickets at Registration Desk)	
10:00 a.m.	<b>NATIONAL CHAMBER EXHIBITS AND DISPLAYS</b>	Washington Hilton and National Chamber Building
2:30 p.m.	A unique opportunity to preview a broad range of outstanding programs, services, publications, videotapes, films and other materials developed and made available by the National Chamber for the use of members.	
4:00 p.m.	<b>NATIONAL CHAMBER RECEPTION</b>	National Chamber Building
	A special social occasion to meet and exchange greetings with old and new friends, National Chamber officers and directors and others in the splendor of the Chamber's Hall of Flags.	

### MONDAY, APRIL 30

7:00 a.m.	<b>SMALL BUSINESS—BIG CLOUD</b>	Washington Hilton Ticket \$15.00
<b>Monday Breakfast</b>	A tribute to the Chamber's large and growing small business membership. Obtaining venture capital will be the topic addressed by our major speaker...and on the screen, the premiere showing of a new documentary on the importance of small business to America.	
9:15 a.m.	<b>CONSTRUCTIVE ACTION FOR A PROGRESSIVE FUTURE</b>	Constitution Hall Ticket \$25.00
<b>First General Session</b>	The colorful and inspirational keynote session for the National Chamber's 1979 Annual Meeting with the United States Marine Corps Band and Drum and Bugle Corps, an important address by the National Chamber's Chairman, Shearon Harris, and spectacular special features.	
12:00 noon	On order form, choose one of four concurrent luncheons. Timely programs feature outstanding speakers and panelists who will address issues challenging the business community and suggest courses of action that produce success.	Washington Hilton Ticket \$25.00
<b>Four Concurrent Luncheons</b>	<ul style="list-style-type: none"> <li>★ TAX POLICY: HELP OR HINDRANCE TO INVESTMENT?</li> <li>★ GETTING GOVERNMENT OFF OUR BACKS: REGULATORY REFORM</li> <li>★ STRENGTHENING BUSINESS POLITICAL ACTION</li> <li>★ GUESS WHO'S COMING TO YOUR BOARD MEETING: THE FEDERAL THREAT TO CORPORATE MANAGEMENT</li> </ul>	
2:30 p.m.	<b>GLOBAL OUTLOOK FOR THE 80'S</b>	Washington Hilton Ticket \$25.00
<b>Second General Session</b>	Take a "journey" through the international strategic, political and economic forces that will affect America's world position during the 80's. Prominent leaders will discuss their views of what we can expect and will join in a panel discussion of how these forces will impact on our nation and the business community.	
<b>Evening</b>	<b>STATE CONGRESSIONAL DINNERS/RECEPTIONS</b>	Various Locations
	For detailed information write the National Chamber. Ticket prices arranged by state chambers and associations.	

### TUESDAY, MAY 1

7:40 a.m.	<b>THE VALUES OF AMERICA</b>	Washington Hilton Ticket \$15.00
<b>67th Annual Meeting Breakfast</b>	Our basic American values, reflected in faith, family, freedom and fulfillment, set the theme for this popular inspirational event which features leading figures in contemporary America.	
9:45 a.m.	Our speakers and panelists will be recognized experts in each subject presented. Audience participation will produce a direct response to your business concerns.	Washington Hilton Ticket \$15.00
<b>Five Concurrent Special Sessions</b>	<ul style="list-style-type: none"> <li>★ GOVERNMENTAL ADMINISTRATION OF WAGES AND PRICES</li> <li>★ LABOR, MANAGEMENT AND THE 96TH CONGRESS</li> <li>★ SMALL BUSINESS EXPORTS—A WORLD OF OPPORTUNITY</li> <li>★ WHAT CHAMBERS MUST KNOW ABOUT THE LAW</li> <li>★ WORLD AND U.S. BUSINESS OUTLOOK</li> </ul>	





# OF EVENTS

12:00 noon	<b>THE INFLATION FIGHT: THREE VIEWS</b>	Shoreham Americana
General Luncheon	Through a panel-discussion type of presentation, three major participants in the American economy—business, labor, government—will discuss inflation and what can be done about it.	Ticket \$25.00
2:30 p.m.	<b>THE IMPACT OF INDIVIDUAL ACTION ON PUBLIC POLICY, FEATURING GERALD R. FORD</b>	Shoreham Americana
Third General Session	Citizen participation in the legislative process: It's time to explore the whole emerging phenomenon of government by referendum. A panel of recognized experts will discuss where it is and where it is going in grass roots America. To cap this exciting session, former President Ford will offer his own insights.	Ticket \$25.00
6:30 p.m.	<b>THE GALA: ANNUAL RECEPTION AND DINNER</b>	Washington Hilton
	You'll meet the 1978-79 Board of Directors and honored guests; hear from former President Gerald R. Ford and enjoy outstanding entertainment.	Ticket \$45.00

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<input type="checkbox"/> Women of Washington (9:30-11:30 a.m.)	_____	\$ 8.00	\$ _____
<b>(Choose One)</b>			
<input type="checkbox"/> Gems & Art/Lunch (12 noon-4:00 p.m.)	_____	\$ 21.00	\$ _____
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# 67th ANNUAL MEETING

U.S. CHAMBER OF COMMERCE • APRIL 29-MAY 1 • WASHINGTON D.C.



# Campaign Subsidies Are Not the Answer

**S**KEPTICS AND CYNICS like to quip that we have the best government money can buy. On the other hand, there are people who say that seriously.

To free voters from what they believe is the ironclad grip of moneyed interests, 132 Democrats and Republicans in the House of Representatives have championed a bill aimed at substituting taxpayers' money for private money to finance congressional campaigns.

Under this bill, the treasury would be more than \$52 million poorer if each of the 870 candidates is handed \$60,000, assuming only two candidates are vying for the 435 House seats available next year.

Another \$2 million to \$6 million would be tacked onto this to pay overhead costs for the Federal Election Commission. If Senate races were eventually covered, the cost would be as much as \$100 million every time the voters elected national candidates.

The Chamber of Commerce of the United States contends that using taxpayers' money to pay for congressional elections unfairly favors the already favored incumbents and feeds inflation. Someone would have to monitor the program, adding to an already overweight federal bureaucracy. That means even more government spending, a leading cause of inflation.

For example, consider the paperwork involved in the last presidential election. The 15 candidates filed about 12 million pieces of information with the FEC. How much paperwork would be generated and how many federal employees would be needed to keep track of 870 House and about 66 Senate candidates every two years?

Dollars and cents aside, it is doubtful that such tinkering with campaign laws would entice newcomers into the election arena. For one thing, public financing would add to the

political arsenal wielded by incumbents—an estimated \$500,000 annual advantage coming through free mailings, travel, easy access to media facilities, name recognition, and an office staff paid for by the taxpayers. It is a rule of thumb that outsiders rarely unseat incumbents without outspending them.

There are other disturbing aspects.

The act would not purify the election system because candidates would still have to raise funds from private sources in order to be matched by federal funds.

And the act would force individual citizens to contribute, via their taxes, to candidates they oppose and possibly to candidates they genuinely fear would threaten the national welfare.

Also, in many aspects this is an antibusiness bill. Now that business is becoming more active in support of its own interests, the labor-liberal coalition wants to shift to campaign public financing to blunt business's initiative.

Charges that business money has come to dominate congressional campaign financing can't stand the test. Statistics showing comparative labor and business contributions dispute such allegations.

Obviously, the specter of business domination of politics is being used to drum up support for congressional campaign subsidies.

Finally, there is something unsettling in the motivation behind this legislation—that congressional candidates are regularly bought and beholden to special interests somehow different from those of other constituents.

Democracy is predicated on the idea that ordinary people are capable of conducting free and fair elections without the heavy hand of government. Once government begins to pay for elections, the next step is for government to try to control what it is getting for its money. □

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